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DEBENTURE: The regular quarterly dividend of \$2.00 per share on the Debenture Stock will be paid August 1, 1944, to stockholders of record July 20, 1944.

PRIOR PREFERRED: The regular quarterly dividend of 75¢ per share on the Prior Preferred Stock will be paid August 1, 1944, to stockholders of record July 20, 1944.

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Dennison Manufacturing Co.
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A cash dividend declared by the Board of Directors on June 14, 1944, for the second quarter of the year 1944, equal to 2% of its par value, will be paid upon the Common Capital Stock of this Company by check on July 15, 1944, to shareholders of record at the close of business June 29, 1944. The Transfer Books will not be closed.

E. J. BECKETT, Treasurer
San Francisco, California



The Board of Directors has this day declared the regular quarterly dividend of 68 1/2¢ per share on the \$2.75 Preferred Stock of this corporation, payable August 15, 1944, to stockholders of record at the close of business August 1, 1944. Checks will be mailed.

A. SCHNEIDER,
Vice-Pres. and Treas.
New York, June 20, 1944.

JOHN MORRELL & CO.

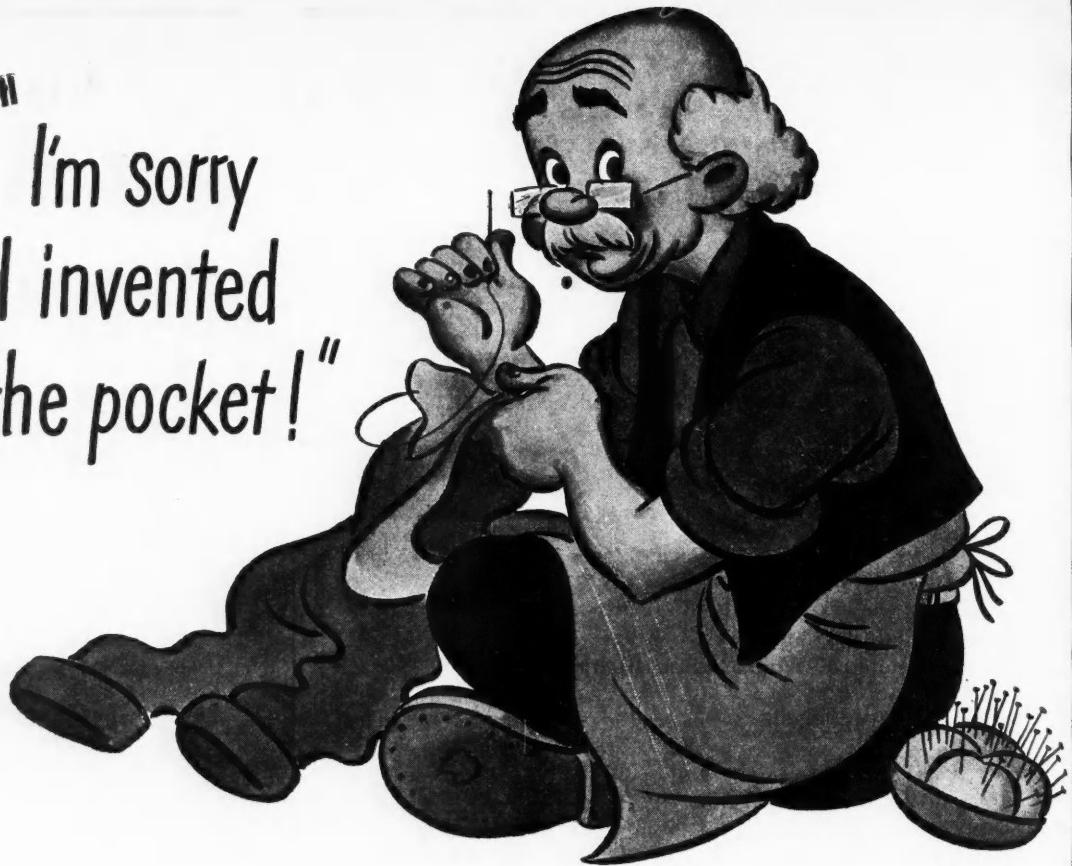
DIVIDEND NO. 60

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Ottumwa, Iowa. George A. Morrell, Treas.



"I'm sorry
I invented
the pocket!"



IF I HAD KNOWN that some Americans would be using pockets to hold all the extra money they're making these days I never would have invented them.

POCKETS ARE GOOD places to keep hands warm.

Pockets are good places to hold keys... and loose change for carfare and newspapers.

But pockets are no place for *any* kind of money except actual expense

money these days.

The place—the *only* place—for money above living expenses is in War Bonds.

Bonds buy bullets for soldiers.

Bonds buy security for your old age.

Bonds buy education for your kids.

Bonds buy things you'll need later—that you can't buy now.

Bonds buy peace of mind—knowing that your money is in the fight.

Reach into the pocket I invented. Take out all that extra cash. Invest it in interest-bearing War Bonds.

You'll make me very happy if you do.

You'll be happy too.

WAR BONDS to Have and to Hold

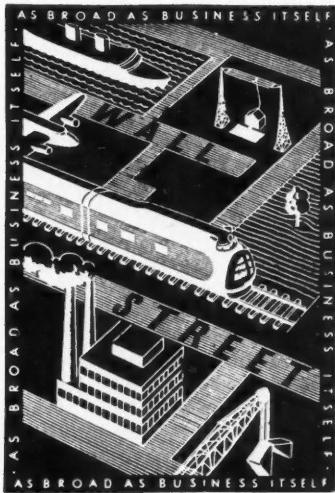


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THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Publisher*

LAURENCE STERN, *Managing Editor*



The Trend of Events

THE POLITICAL CAMPAIGN . . . Unlike our British friends, we have a Constitution under which elections can not be deferred until after the war. In consequence, the candidates for office this year will be electioneering while the war is in its most dynamic—and perhaps concluding—phase.

In such an environment, intelligent citizens would like all candidates, whether for high or low office, to emulate Gov. Dewey's acceptance speech in brevity, dignity and responsibility. Most of the voters, as Mr. Dewey seems to know, do not see any horns on President Roosevelt's head; and are not attracted by the name-calling and irresponsible breast-beating which in past campaigns have been familiar among some political orators and in some sections of the press.

Unfortunately, however, there are a certain number of nitwits in both parties—people who will not keep in step with Gov. Dewey or President Roosevelt in responsible utterance. They represent one of the minor nuisances apparently inseparable from representative democracy. The peoples with whom we are at war do not understand this democracy. They no doubt have hoped that this election and the preceding campaign would in some way interfere with our war effort, in some way make it possible for them to get softer peace terms.

Well, if they are too propaganda-blinded to see it now, our enemies will find out in due time that this election is

just a little American family matter; that we will settle it without any letdown whatever in our war effort; and that, whatever the tally of the votes in November, our terms to Germany and Japan will remain just what they presently are: "Surrender."

In his convincing emphasis on "no interference with the war" Gov. Dewey did the nation—and, incidentally, his own political cause—a real service. He commended our military chiefs and pledged flatly there would be no change in military conduct of the war. He pledged to our Allies complete unity "to the limit of our resources and manpower." His grim warning to the Axis was that "with every day you further delay surrender, the consequences to you will be more severe." Yes, the way Dewey started his campaign is bad news to our enemies.

If he continues to set the same standard, his campaign will be a refreshing novelty—whether or not it proves successful. His speech was the shortest made before the Republican Convention and it contained no wise-cracks, slogans or heart-strings oratory. At least one of his opponents, a prominent voice of the "liberal" press, ruefully conceded that it was a "masterpiece."

However, Mr. Dewey has a job on his hands. The Republican platform in some respects is God-awful; and will have to be what Dewey makes it. Moreover, in his own way, he has to modernize and liberalize his Party—something the GOP would not let Willkie do.

PROGRESS OF WAR LOAN . . . As we go to press bond sales in the Fifth War Loan have passed \$13,000,000,000, making it quite certain that the goal of \$16,000,000,000 will be attained. Indeed, it is not improbable that subscriptions will top the goal by some \$2,000,000,000 to \$3,000,000,000. This would be more gratifying except for one thing: the soaring total of sales is due predominantly to corporation and institutional buying.

Indeed, by the middle of last week purchases by non-individual investors had reached nearly \$10,000,000,000 and were above 97 per cent of quota. Against this, purchases by the general public—that's you and me—had reached only about \$2,900,000,000 and were less than 50 per cent of quota. Unless individual sales increase sharply, they will not come even close to the \$6,000,000,000 goal within the drive period ending July 8.

It is easy for corporations and institutions to buy war bonds. They not only have the money—they have no other feasible place to invest it. But the figures of savings and bank deposits show that the general public also has surplus money—enough money to buy war bonds in much greater volume than is being done. If the individual quota is not obtained, therefore, it can only be due to too much indifference, too much of a tendency to let the soldiers fight the war and let somebody else help finance it.

Surely, with victory now certain and not too distant, there is no excuse for the people letting the Government down on this most important matter. There is still time. We urge you again to invest in war bonds, the safest security in the world—to invest all you reasonably can. And if these words should reach you after the July 8 deadline, that should make no difference. There is no deadline in the war or in the cost of the war. War Savings Bonds—the type the Government most wants people to buy—are for sale every business day in the year.

TAX PROMISES . . . In this election year, with income taxes really bearing down on pay envelopes, many of the politicians of both parties can be expected to make a lot of glib promises about post-war tax reduction. It has, indeed, already started. Senator Alben W. Barkley, in a speech before the Tammany Society in New York last week, said taxes could be reduced 50 per cent after victory.

That would be very nice. We all favor it. But the trouble with promises of tax reduction is that too many seemingly contradictory promises go hand in hand with them. Thus, while we are promised tax reduction, we are also promised lots of public works, swell super-highways, etc. We are promised that never again will the Navy and the Army be emasculated, and that "adequate" defense forces—costing a lot of money—will be permanently maintained. Farmers are promised no fewer Government benefits, which cost money. The returning veterans must be generously cared for, if unable to find jobs or if ill or wounded or if desiring to complete their educations or if they want to borrow Government money to set up in business. And so on down the line.

With the decline in national income that will follow termination of billions of dollars worth of war contracts—and with tax payments of a great many corporations either sharply reduced or for a time cancelled by the workings of the carry-back provisions of the law—the Government's revenue from existing tax rates will de-

cline drastically.

So as we think of all this, we don't get too excited or very hopeful when Senator Barkley—who no doubt knows there is an election coming—tells us taxes will be cut 50 per cent. Of course, the Senator has an out. He didn't say how soon after victory the cut would come, and he didn't say whether he had in mind victory over Germany or victory over Japan. We would advise you not to make any financial commitments on the strength of these promises of coming tax savings, as we have a sneaking suspicion that the reductions will be smaller and later than the optimists are banking on.

SOLDIERS' SPENDING . . . Wherever American troops enter Europe—in France now as before in Italy—there is a serious problem of inflation involved. American soldiers are relatively well paid and are, on the whole, free spenders when they get as much as an hour's leave. Nowhere plays, where in Europe is there any surplus of consumer goods? It appears a partial exception—food is in very short supply and most other consumer items for sale in the shops are scarce; that even scarcer.

For the first few weeks after our occupation of Naples, the combination of soldier spending, inadequate provision of food imports and a drastic official exchange revaluation for the lira produced a near famine and some distress for Italians, with the bulk of all retailing suddenly transferred to the black markets. We have learned by that experience and it is evident that we will no longer do as badly as at Naples.

Nothing will create more ill will for America than our soldiers, by their free spending, deprive Europeans of the necessities of life or increase the prices of such necessities as are available to civilians. For the Allies to pour consumer supplies into the liberated territories is not a complete answer either in quantity or timing. Our troops are well fed and well-equipped. We see no reason why they should be permitted to buy goods where purchases work a real hardship on European civilians.

RUSSIAN TRADE . . . Mr. Eric Johnston, president of the United States Chamber of Commerce, is undoubtedly correct in his view that there are large possibilities for U. S. trade with Russia after the war. That country will need huge amounts of capital goods to rehabilitate devastated regions which are enormous in extent.

The central question, of course, is how such trade can be financed. In the long run, our exports to Russia should be paid for by imports of Russian goods that we need and which do not harm American employment. However, during the period of heaviest need for our goods in Russia, a balanced trade would be out of the question. Since the peak demands will be temporary, there would seem to be no reason why long-term credits can not be worked out under Government sponsorship, the debt to be discharged over a period of years by imports from Russia of agreed types and volumes.

THE MARKET PROSPECT . . . Our most recent investment advice will be found in the discussion of the prospective trend of the market on page 330. The counsel embodied in the feature should be considered in connection with all investment suggestions, elsewhere in this issue.

Monday, July 3, 1944

As I See It!

WOMEN ARE JUDICIOUS—DESPITE MRS. LUCE

BY CHARLES BENEDICT

CANNOT applaud the speech of Representative Clare Boothe Luce before the Republican Convention. It was, if anything, more in the vein of the women she writes about in her plays, and they are not typical of the average American woman—certainly not of the representative women.

It is indeed a pity that Mrs. Luce should have missed the chance to prove that character and capacity know no sex; that women are constructive, not negative, and can do a job objectively and judiciously.

For a long time, women have been working to earn important places in the economic and political life of the country. There was general rejoicing when Mrs. Luce was elected because of her prominence and the facilities she has for publicizing her activities. But what has she done with it? Very little, as far as the country is concerned. Nor, in this instance, can it be said that she made a constructive contribution to the Republican cause in a year when women hold such great balance of power.

On the contrary, her speech was wholly negative, dragging purely partisan spite into a field that might better have been left alone. Her vitriolic outburst was no credit to her party; it was an insult to the intelligence of the average citizen and an even greater insult to American womanhood. It was a cold-blooded attempt to play politics with the heart-ache of the bereaved, with the anxiety of those who have sons, brothers or fathers risking their lives for their country. It was a shameful performance.

Compared with the splendid utterances of Thomas Dewey and John W. Bricker, her words sounded not only pitifully malicious, they wholly lacked the sense of responsibility that one would have expected from any one addressing the country as she was on this outstanding occasion.

Nor was Mrs. Luce standing on firm ground as to historical facts when she poured forth her unworthy insinuations. In this respect, one can do no better than quote from the *New York Times* editorial of June 29. . . .

THE LIMITS OF PARTISANSHIP

"When Representative Clare Boothe Luce was addressing the Republican National Convention on Tuesday evening the American casualty lists for the first two weeks of the Normandy fighting were being added up in London—3,082 known dead; 7,959 missing, some of whom are dead; 13,121 wounded, of whom many will never be whole and well men. When the Democrats meet the totals will be greater, the grief and pain by that much augmented.

"We cannot believe that the American people will applaud Mrs. Luce's insinuation that these men are dead, or

wounded, or missing because President Roosevelt did not show "skillful and determined American statesmanship" between 1933 and 1941. Neither do we believe that they would applaud a purely partisan Democratic reply.

"The blame is wide and deep. The Republicans did reject the League of Nations. They did reject the World Court. They did uphold a narrow conception of neutrality. Their votes, in the House of Representatives, did come within an ace of destroying our new Army less than four months before Pearl Harbor. The Democrats, between 1933 and 1939, shared the responsibility for a parochial international policy. What can possibly be said for a Presidential statesmanship that spoke of quarantining aggressors in one month of 1937 and accepted the embargo act later in 1937? This much can be said, in exact justice, for President Roosevelt: after the outbreak of war in 1939 he did lead this nation in preparedness and in acknowledgment of its international obligations.

"But when either party, and its leaders, shrank from war, the nation shrank, too. Because we hated war we were too patient, and, in the case of Japan, too helpful, with our sworn enemies. Trying to keep out of war we ran into it, under adverse circumstances. We followed no material interest, but struck for liberty only after we were attacked. This is America's record, not that of any party. In love and loyalty to the dead we had better not make it partisan."

Mrs. Luce, however, did just that. But there is such a thing as trying to be too nimble. Usually, it proves a boomerang. There is hardly any doubt that it will in this instance. If Mrs. Luce told her lurid tale to reap votes from the sorrow and anxiety of American women, she must indeed have a poor opinion of them. Women voters will greatly resent it. If it was merely a venomous effort to hurt the opposition on half-baked premises, it is bound to react severely against her own party. The public, even in the heat of an important campaign, still expects at least a superficial sense of fairness and a certain regard for facts from those who do the campaigning. Mrs. Luce's speech lacked both. By her ill-considered outburst, she has rendered herself a liability to the Republican Party. It is particularly regrettable because Republican prospects have been greatly enhanced by the nomination of two candidates of real winning potentials.

Market Action to Take Now

The price movement is increasingly speculative and has lately developed some topping out indications. We strongly advise caution in investment policy.

BY A. T. MILLER

To paraphrase a familiar quotation: Speculators rush in where investors fear to tread.

During the past fortnight this publication's index of 100 low-price stocks advanced 7.46 points, while the index of 100 high-price stocks advanced by only 59/100ths of 1 point.

In the four weeks ended July 1, the low-price index gained 18.23 points or 21.2 per cent, while the high-price index gained 3.52 points or 5.2 per cent. We need not quibble over definitions of what is speculation. This is it—and how.

The fact that the velocity of advance in the low-price index is so much greater than in better grade stocks would not be a matter of any concern if low-price stocks were recovering from a really depressed level. Such is not the case.

Low-price stocks had a great rise in 1942-1943. For more than two years great numbers of people actively interested in the stock market, including many hundreds of trained professional analysts, have been "combing the list" for meritorious low-price stocks not too wildly overpriced—with the result that the field has been pretty thoroughly picked over. Those now rushing to "get aboard" are not early buyers but late buyers—possibly very late. Last week the average price of the 15 most active issues on the New York Stock Exchange was \$8.58. It is evident that a goodly percentage of the buyers are not concerned with earnings or any other factors of intrinsic value and—to be frank about it—are merely buying counters in a gambling game.

These eager buyers of the most speculative trading vehicles will have a chance to garner profits only if still later buyers keep coming in. It need hardly be said that somewhere in such a psychological merry-go-round—just where being beyond rational calculation—a lot of people are going to become "involuntary investors."

The Magazine of Wall Street began compiling its indexes of 100 low-price and 100 high-price stocks back in 1936 in order to have a really reliable "qualitative" measure of the market. We made the prices of November 14, 1936, the index base for the practical reason that our combined index—which this year includes 283 stocks and which is set up to cover some 80 per cent of all stock market transactions—happened on that date to stand at 100.

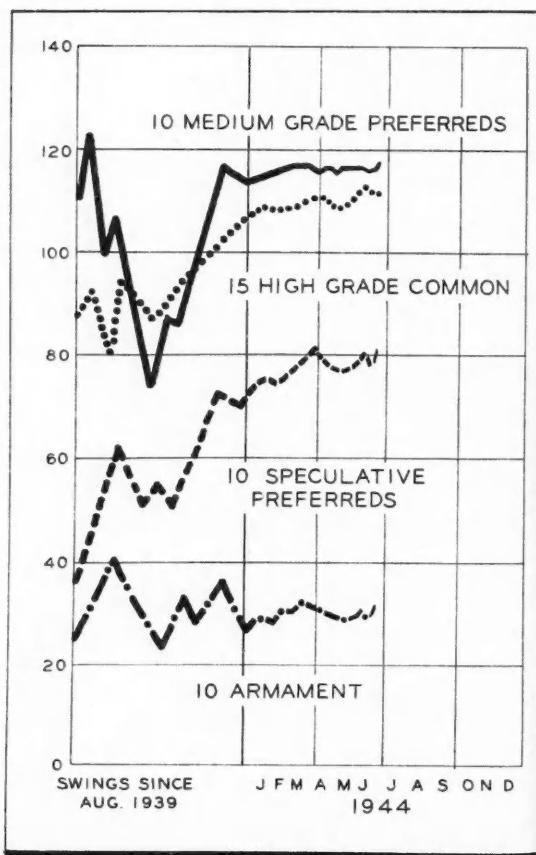
Obviously this price base is not a low one. On November 14, 1936, the fiscal authorities at Washington had already become disturbed by tendencies toward overspeculation. The greatest bull market since 1929 had—as it proved—only four more months to run. The broad average was in the final one-fourth of its range, with the "cream" gone. Many individual groups had reached, or passed, their bull market peaks—including air lines, bus lines, communication, dairy products, finance companies, food stores, gold mining, liquors, mail order, radio, shipbuilding, sugar, sulphur, tobaccos, variety stores.

Note the preponderance of "consumer goods" stocks in

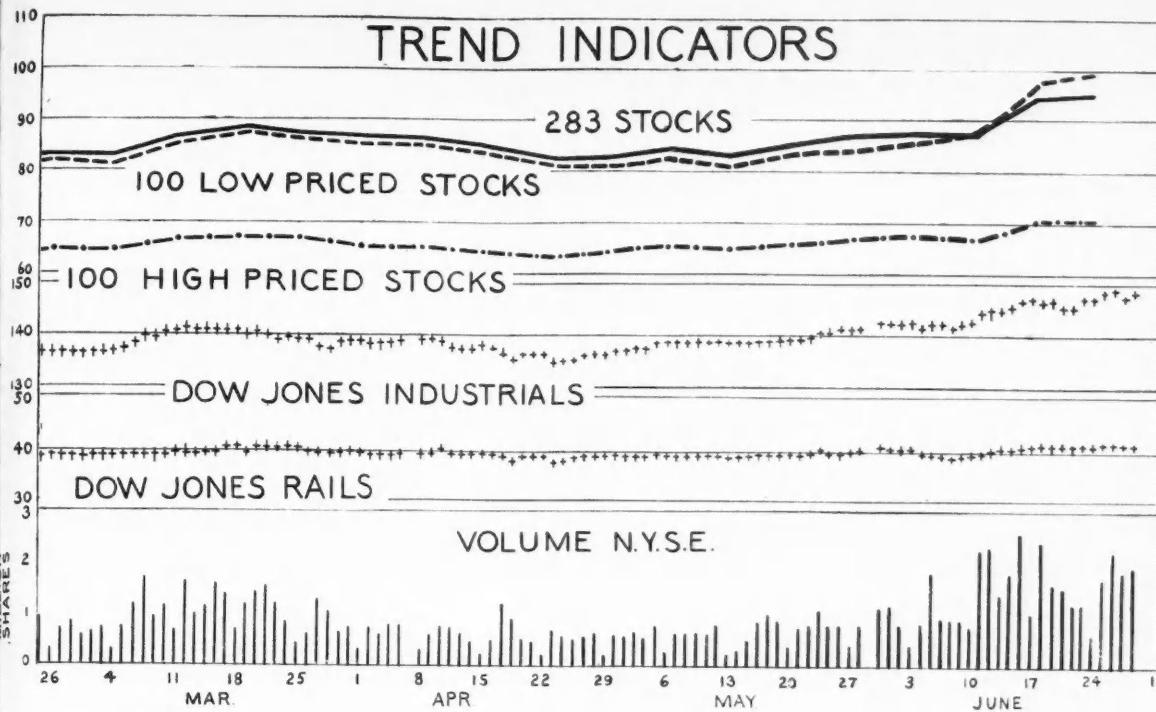
the list. The concluding phase of that speculative period was featured largely by steels and other "heavy industry" shares, as well as by low-price stocks in general.

It is not unlikely that within the market—not revealed by the averages—we are having a somewhat similar turning movement now. Over the past two weeks, with the composite average strong, there were net declines in the finance stocks, gold mining, liquors, shipbuilding, soft drinks, tires, variety stores. The automobile and auto accessory groups—most spectacular June performers—went still higher but must necessarily be fairly close to a peak.

Meanwhile percentage advances substantially larger than shown by the combined average for the period were recorded in the steel and iron group, non-ferrous metals, copper and brass. Lethargic groups, making gains much smaller than the average and nominal in some instances included petroleum, air lines, baking, dairy products, department stores, drugs and toilet articles, machinery



TREND INDICATORS



paper, radio, rail equipments, railroads and tobacco.

At last week's close our index of 100 low-price stocks stood at 104.02 or 4.02 points higher than November 14, 1936; while the index of 100 high-price stocks was at 66.68 or nearly 30 points under the level of November 14, 1936.

It may well be that heavy income taxes, which have drastically reduced the percentage of income that can be saved—and therefore invested—by well-to-do and upper middle-income people, are resulting in distorting the character of the market: tending *relatively* to depress demand for better grade stocks, inflate demand for low-grade stocks. It may be that at least to some extent we have also a new class of market followers.

Be that as it may, the present spread between these qualitative indexes—in favor of the low-price section—is the widest developed since we began the compilations. It is 33.34 points, compared with a maximum spread of 8.5 points at the top of the 1937 bull market and approximately 24 points at the intermediate top in mid-1943, preceding a reaction approximating 16 points in the Dow industrial average.

We emphasize that the ratio between these two indexes is not a "gadget" for speculative traders. It can not call except on hindsight—either a major or an intermediate up with any close precision. We may be at or very near such a top now; but again—this being a fanciful boomlet with bull psychology cumulatively feeding on itself—may be additional weeks away. But what it does plainly indicate—and this ought to be enough for prudent investors—is that speculation has definitely entered a "danger zone."

It has always been our conviction that sensible investment policy should be to strive to buy sound values at opportune prices. We know that genuine bargains are usually to be found in depressed, low-volume markets when traders with the make-profits-quick itch are not

jamming the brokers' boardrooms. We know that violent price rises concentrated predominantly in the most speculative stocks, and to the accompaniment of greatly expanded market volume, can not represent sensible investment buying.

While there is strong precedent for a summer market rise, as we have conceded before, precedent is of no value whatever so far as concerns the question of how far such a rise may go or at what time point it will top out. Some "summer rises" have been large in scope, some small. Some, without more than minor set-backs, have run to Labor Day or even a bit beyond.

The 1943 top was on July 15. In 1941—a small rally—it was on July 22. In 1939, it was July 22. In 1938 it was August 6. In 1937—a large intermediate rally—it was August 14.

The common sense rule, we think, is to figure that a market advance from a depressed oversold position will probably run further in points and time than an advance from a medium-high base, without starting from an oversold position. The latter is true of the present market. It is also common sense, in our opinion, to figure that the more violent the price rise, the sooner is it likely to top out in time. This rise is not violent in many stocks—but it is violent in stocks that make up the biggest portion of total daily volume; and when these speculative favorites get their tumble they will in some measure tend to pull down a majority of all stocks. A fairly good corrective reaction now might make it possible to carry on the movement to later in the summer. Without it, the higher they go, the harder will be the fall. It is open to doubt that stocks bought now will show profits six months hence—six months being the span to qualify for minimum taxation of profits. It will be found, after all, that serious economic dislocations following defeat of Germany can not be laughed off.

—Monday, July 3



Cushing Photo

A CHALLENGE TO CONGRESS —To Prepare for Peace

BY E. A. KRAUSS

PERHAPS the war will last long enough for Congress to have legislation required for reconversion and post-war planning all ready in plenty of time no matter how leisurely it deliberates but the way things are going on the war fronts, chances are that time is running short and that Congress is gambling with needless loss, unemployment and general economic chaos by delaying vital action on the legislative front. Shortly after the start of invasion, the tempo of events gave some promise of speeding legislation sorely needed for demobilization of our war economy but unfortunately, Congress has now recessed with only a bare minimum of its work completed. There has been a marked tendency to emphasize the bills which make the most immediate popular appeal and an obvious disinclination to tackle politically "hot" problems.

In the last minute, Congress rushed through the contract termination bill, long pending, and extended price control though not without some emasculating provisions. Earlier it had passed the G.I. Bill of Rights. Apart from these and a number of appropriation measures, a series of most pressing issues were left undecided. Congress had an urgent job to do and failed to do it.

Over four months ago, the Baruch-Hancock report outlined a plan for getting ready for reconversion and urged speed in preparing for action. But with the exception of the contract termination bill, Congress has done exactly nothing towards putting into effect any of the suggestions made in the report. While the eyes of the country were riveted on the invasion, congressional eyes were turned toward early recess to attend the conventions, mend political fences at home and escape Washington's torrid summer heat. Of the more urgent and vital demobilization measures, the following are still crowding the congressional calendar: (1) Disposal of surpluses and war plants.

(2) Post-war unemployment compensation. (3) Manpower re-disposition, a plan for post-war migration and retraining of war workers. (4) Post-war taxation. (5) Post-war public works, including the public road bill. All these are percentage problems with an important bearing on the reconversion process; the public as well as business has a tremendous stake in their quick and proper disposition.

No one knows when surrender or collapse of Germany will come but there can be no excuse if Congress has not made adequate preparation for it when it does come. Once at the avoidable period of delay and confusion in changing overeronautically to a peace time economy could lead to incalculable loss that to exact and suffering. If for lack of preparation, such should befall planning our fate, Congress would have to bear much of the responsibility. Political expediency apparently has been reconvening more than the public interest. The spectacle is fitting of familiar but never were the stakes so high, never the consequences of inaction more formidable.

There has been too much disregard of the fundamental fact that the sooner Congress enacts laws establishing policies for getting industry disengaged from the intricacies of war production, the sooner industry itself can make, of the plans for operating under these policies when the time comes to put them into effect. It boils down to the simple question of providing post-war jobs for war workers and about soldiers. After all the shouting certain members of Congress did over Baruch's suggestion that the executive departments should proceed on their own authority pending congressional action, it would seem that legislation would not have been forthcoming promptly. Instead, it looks now as if we shall have to wait until after the elections.

Much the same holds true of the congressional approach to basic post-war planning as distinct from the more immediate reconversion problems. Long range post-PB Chal-

war planning was knocked into a tailspin when Congress last year killed the appropriation for the Planning Board. In the interim, several congressional committees held hearings and long-winded discussions without any practical result paving the way for prompt action. It was only a short time ago that the Special Senate Committee on Post-War Problems submitted a report outlining steps to permit business to lay the foundations of a successful post-war economy. This sixteen-point action program which the committee urged must be considered immediately "if an intolerable unemployment situation is to be avoided," has been held over by a politically minded Congress. Apparently, the report and the note of urgency pervading it has been insufficient to recall Congress to a sense of its immediate duties. Congress preferred to recess though it must know that failure to act promptly may not only throw us into unparalleled confusion but may determine the whole fate of our post-war economy.

Were Congress properly organized, there would be less reason for concern regarding the recess taken. If there existed a central committee remaining at work, preparing measures, agreeing on time tables for their consideration and able in case of an emergency to recall the legislators, we could remain assured that no unnecessary time was being lost. But since such is not the case, the recess involves considerable risk. Fact is that many problems affecting the future of our national economy which only a short time ago appeared far away, have become current problems virtually overnight.

Success of the allied armies in Europe has had the effect of speeding up the time table of war to a point where post-war questions are rapidly becoming problems of today. A short while ago, the WPB, revising earlier

estimates, announced that cutbacks after Germany's fall tonight will reach 50%, and the War Department is getting ready to train contractors of the percentage cutbacks which will be applied to them. Transition problems will snowball rapidly as cutbacks and cancellations assume mounting importance. The recent disturbance at the plants of Brewster Aeronautical Co. has shown us what to expect in the absence of well-planned procedure. Yet basic legislation urgently needed for reconversion and the blueprinting of our post-war economy remains undecided in the congressional hopper.

Fortunately, in other quarantining there is greater awareness of the necessity for preparatory work, of the fact that invasion is bringing peace nearer and thus simple shortening the time for planners among. About two weeks ago, the Concom light for reconversion and preparations was finally flashed by the WPB, though with important reservations. Essentially, the "go ahead" signal now permits three steps: (1) WPB is preparing an order authorizing manufacturers to acquire enough materials and components to make and test a single working model of any product planned for post-war production. (2) Chairman Donald Nelson gave instructions for

immediate revocation of earlier orders limiting the use of aluminum and magnesium so that manufacturers will be able to obtain these metals and fabricate them into essential end products whenever and wherever manpower is available. (3) Beginning July 1, manufacturers will be allowed to purchase machine tools and dies for civilian production whenever possible out of existing surpluses listed with the WPB and the Defense Plant Corporation.

It was the signal for industry to lay the groundwork for swift return to peace production. The reservations came later, in the form of a statement by Mr. Nelson that "he wouldn't hesitate for one moment to repeal or modify his decision if it is found to be interfering with war output." Admittedly, this was the direct result of shifting requirements for materials and equipment dictated by war action in Europe. It coincided with the warning that the next three months threaten to be the most critical from the standpoint of production, that it will be absolutely necessary for at least 200,000 workers to shift from present locations to areas of greater labor need. "We have got to finish the program given us by the Chief of Staff for military production," Chairman Nelson said, emphasizing that with invasion there had come immediate increases in some needs, such as tank production, artillery and more recently, heavy truck production.

In spite of this, Mr. Nelson is sticking to his guns. His initial decision to permit limited reconversion preparations had come over the most strenuous objections of the military, based on the urgency of bending every effort toward greatest war output. With this necessity, Mr. Nelson fully agrees. But he also believes that if the practical start of reconversion is not launched amply before the time when the actual switch from war to peace production must be made, the country will find itself in a chaotic position. "War production was delayed because it took too long to tool up," Chairman Nelson stated. The same thing can happen to peace production, he feels. To some extent this is probably inevitable but foresight now can save the country a period of unemployment and confusion, at best serious but at worst disastrous.

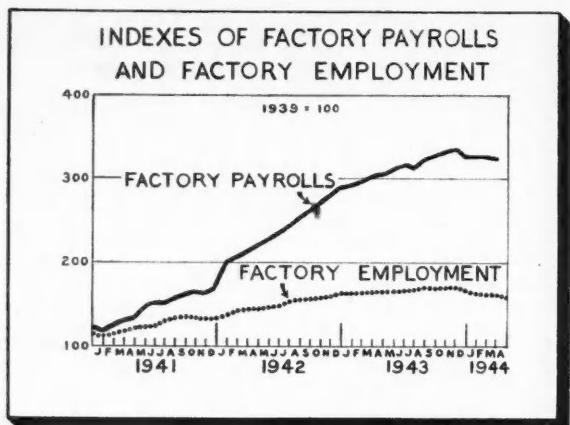
Despite the limitations imposed by war necessities, Mr. Nelson's decision is warmly welcomed by industry which long has been pointing out the dangers inherent in undue reconversion delays. The situation as it is now rapidly shaping up clearly calls for two widely different yet closely related types of action on the production front: (1) Greatest possible effort by industry, labor and Government to get military production to required schedules and keep it there. (2) Without expansion of civilian produc-

tion now, prompt and adequate preparation for such expansion in order that the whole economy may get on with the war job secure in the knowledge that reconversion is being properly planned and prepared for.

To advocates of the idea of preservation of the pre-war competitive situation in industries, Chairman Nelson's



New York World-Telegram



order, however, was a disappointment. Proponents of such a policy have been endeavoring to have materials released to all companies in a given industry at the same time. Mr. Nelson's order has removed speculation on this major reconversion issue. He made it clear that public interest and not historic position would govern civilian production. When materials are available, producers, new and old, will receive equal consideration. Production will not be held waiting until some manufacturers have completed their war contracts, and newcomers will not be curbed until all established concerns have returned to peace time output. The WPB viewpoint is summarized concisely in Mr. Nelson's words: "Any hardships which must result from lifting WPB restrictions are regrettable but unavoidable. If the Government were to attempt to prevent new competition, there would clearly be grave danger of shackling the country with a regimented economy for a long time to come."

This of course is common sense and relatively few will quarrel with it. For example, to wait until every automobile maker is ready to make a pilot model for post-war might mean to keep some plants, and many workers, idle for months. If the Government undertook to restore the pre-war status quo in industry, it would have to stay in and virtually run the latter. By far the lesser evil is to let some companies, especially smaller ones which are likely to reconvert first, make some comparative gains than run up against the war's end with industry untooled for peace.

In short, then, there is to be no plan to guide each industry back to civilian production and no over-all effort to see that each competitor can start where he left off. When materials become more plentiful and the labor situation eases, WPB intends to lift the lid and let anyone get into any business he wants. It would be difficult if at all possible, for Government to restore the pre-war pattern of industrial production; expansion has been too great and if controls are kept too long, unemployment may become quite a serious threat. Competition is regarded the only practical method for bridging this period; this is in the American tradition and on the whole, industry is inclined to agree with this viewpoint.

There can be no question that here is practical and realistic thinking and planning. As such it must be welcomed, whatever its present limitations, in a period marked by dangerous hesitation and dilly-dallying in congressional quarters, reluctance to come to grips with the many group and sectional pressures pervading the entire complex of reconversion and post-war planning. The urgency and importance of these problems has caused an astounding flow of ideas, many loaded with

political dynamite, and from a purely political standpoint it is perhaps understandable if congressmen have little stomach for committing themselves on the eve of the elections. The same, of course, applies to the more politically minded sector of the Administration; it shares the blame for inaction to the extent that it has failed to spur action.

One of the politically "hottest" problems is that of evolving practical policies for war plant disposal. About \$8 billion worth of Government-owned plants are to be disposed of when their war-time usefulness is ended. Most congressmen want them sold quickly to private industry. Secretary Ickes once suggested that they should go to war veterans. Powerful influences in and out of Government urge that preference be given to small business. Labor has proposed that the Government operate them, if necessary, to provide post-war jobs. Local interests all over the country have their own individual ideas. A number of western and southern senators have come out with the demand that war plants and stockpiles of material should be disposed so as to help realize a "national economic balance," presumably meaning greater industrialization of the West and South. Some aluminum makers have told the Truman Committee that Government should retain title to Government-owned aluminum plants and lease them to two or three private companies for operation, to prevent Aluminum Co. of America from building up a complete monopoly. And so it goes.

The divergence of viewpoints on this single problem highlights the indecision and lack of planning, despite the immediacy of the problem. Congress and the executive departments have been passing the buck. Industry is looking for plant bargains which they are officially told they should not expect. Large corporations shy away from fear of getting entangled in antitrust proceedings. So far, war plant disposal has been sadly lagging. Realizing the obstacle of antitrust fear, Surplus Administrator Clayton has urged the Justice Department for reassurance to expedite plant disposal but so far without success. Then is the further controversy of sale versus lease, with the former preferred by Government and most of business but with small business, labor and certain local interests plugging for plant lease as an alternative method of utilization of war plants.

Confusion Abounds

The upshot is official and public confusion over the entire question which is fast developing into a hot political dispute involving such fundamentals as Government competition with business, monopoly and sectional preferences. Sooner or later, however, it must be resolved and it might as well be sooner unless we want events to catch us with our hands down, completely unprepared. Business and industry must know where they stand and what to expect; they cannot plan ahead with such a ponderous question hanging fire.

Of this as of other vital questions remaining unsolved for lack of decision or political courage, it is the human side of demobilization which deserves particular emphasis. The G.I. Bill of Rights, passed by Congress, was the initial step in a tentative line of action towards liquidation of the war effort and post-war stability at home and abroad. Other measures contemplated are those dealing with domestic employment and re-training of war workers and soldiers, and the question of unemployment compensation during the critical transitional period. They all tie into an inter-related pattern, together with contract termination, surplus disposal and other more technical problems. The foreign

ultimate object: Economic stability, fullest possible employment and prosperity. In dealing with the human side of demobilization, the side directly affecting voters, Congress while feeling perhaps less inhibited still wants to step cautiously. But it is primarily the deep conflicts of policy and fundamentals which have been impeding post-war planning to date. Invasion has awakened labor leaders and Government officials to the fact that planning for the human side of demobilization has been sadly lagging, due to existence of these very conflicts. Henceforth we can reckon with mounting pressure on Congress to make up for the time lost and this pressure, eventually, may become stronger than the political inhibitions which so far appear to have held back constructive action.

Peril of Unpreparedness

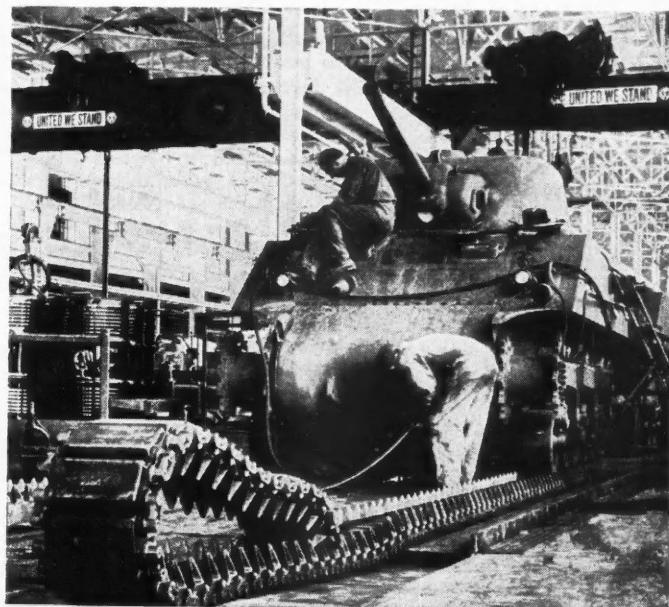
Today, we are far from prepared to meet the vast adjustments that will come with the advent of the post-Hitler era, and later with the defeat of Japan. If congressional dilly-dallying continues, instead of acting along the lines of a planned, coordinated program, we shall be forced to resort to makeshift arrangements which may deal a body blow to smooth transition. This must be avoided by all means; the stakes are too high. That there is no lack of recognition of what is needed, is amply illustrated in the general views of the Special Senate Committee on Post-War Problems which may be summarized in the following words: "Without proper economic environment, without confidence in the friendly attitude of Government, without reasonable certainty that a minimum number of simple 'rules of the game' will not be changed except upon great provocation, without relief from an increasing number of departmental directives, many of them conflicting; without a certainty that the Congress will delegate the absolute minimum of its powers and those under well-defined conditions, without assurance that legislation and administration will not discriminate in favor of any segment of the economy, without a well-defined fiscal policy, business will not be willing to spend its reserves for new facilities. Without these, business will not be able to obtain new equity capital. The investors will continue to seek the lesser profits of security rather than the greater gains of risk. Ownership will not be attractive. Savings that would spark the expansion of private enterprise will be hoarded and become valueless in increasing and absorbing the American production."

Coming from a congressional committee, this view of the transition problem and the economic climate held necessary for post-war prosperity is significant. What Congress will do about it, and when, is another matter but it may well take to heart the basic concepts enumerated above. However, there are still other, more closely circumscribed fields where speedy and determined action is vital in the interest of future economic stability and progress. They are taxation and expansion of foreign trade. So far, Congress has done nothing about it. Foreign trade of course is multi-lateral and basic preparatory conversations with other nations must precede any decisions as to domestic aspects of the problem. As to foreign policy aspects, we know that important spadework is being done by Government though due to the complexity of the problem, exact results cannot be foretold at this time. As to domestic aspects of foreign trade, bound to become an important

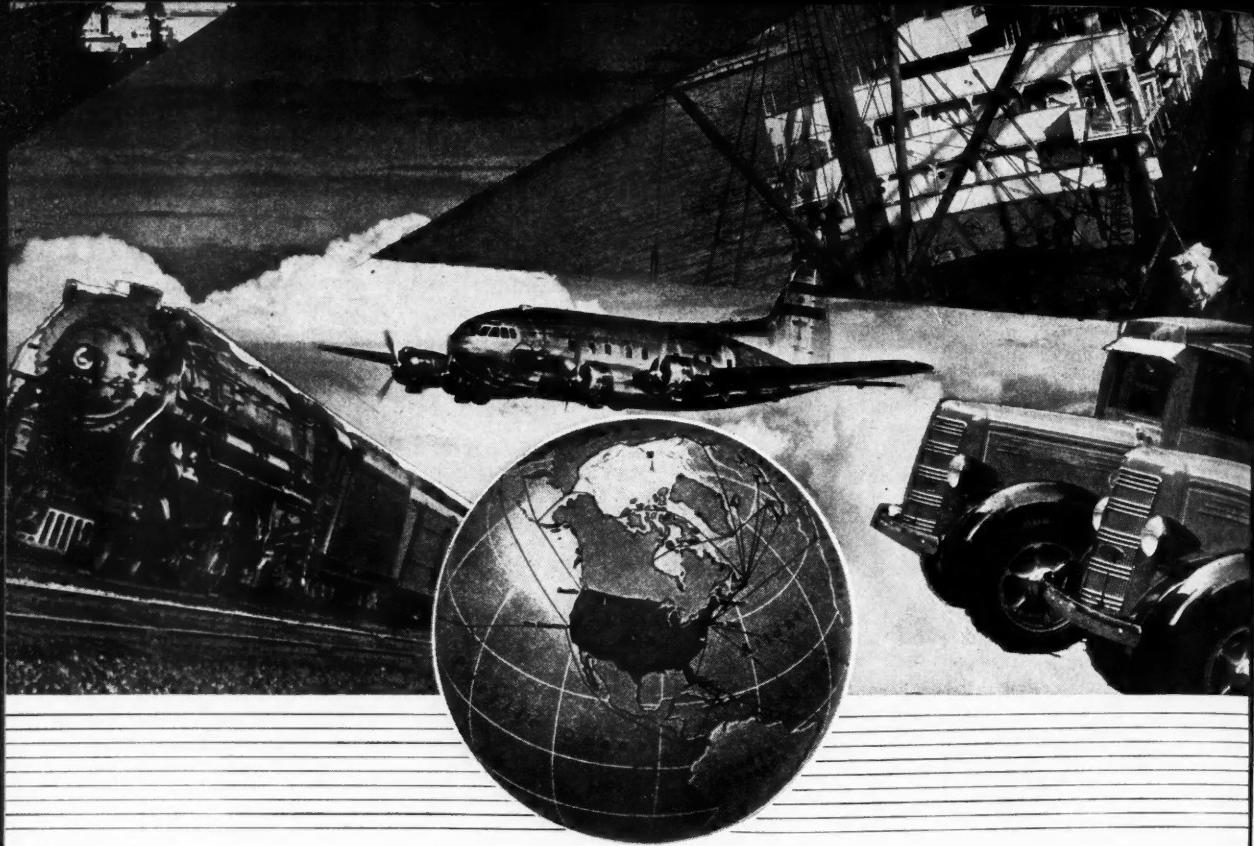
economic stabilizer during transition as well as thereafter, they boil down for the moment to prompt and smooth reconversion to permit quick resumption of normal production, and of normal exports.

In view of what is going on abroad, the point is important. We hear that British manufacturers are shortly expecting permission to start making automobiles for export. We read that new automobiles will soon be pouring off the assembly lines of a huge Soviet factory in the Ural Mountains. We know that British preparations for post-war exports are not confined to automobiles alone, and such knowledge does not sit well with American manufacturers with a stake in world markets. Early and quick reconversion, then, assumes added importance if we are to hold our own in competition with other nations abroad. Further implied is constructive legislative action on such difficult and controversial matters as cartels, both at home and abroad, on tariff and foreign investment policies, on currency questions, and on specific policies in respect to international aviation, shipping and communications. Since the latter depend on the prior problem of agreements with other countries, so far not yet achieved, no early congressional action is possible but as peace comes nearer, pressure for action will increase and Congress may well prepare in advance to deal with these intricate subjects.

The situation is different in respect to taxation, that is revision of the tax structure to promote expanding production and consumption. Being a purely domestic matter, there is no reason why Congress should not grapple with it promptly and realistically, yet until very recently, the question has been severely shunned. Of late, post-war tax reduction has been timidly raising its head. To encourage risk investment is the agreed objective of many of the proposals currently advanced, a step in the right direction. Both the Administration and Congress seem agreed on this point. Congress has ordered its staff of experts to cooperate with the Treasury in laying the groundwork for a tax plan that will accomplish the desired end. Secretary Morgen. (Please turn to page 370)



Preparation for peace need not interfere with vital war work, the production of more and more tanks such as these which are needed for victory.



Increasing Tempo of World Industrialization

What it Will Mean to Our Post-War Economy

BY V. L. HOROTH

AT important international gatherings and Wall Street luncheons as well, one of the most frequent topics of discussion is the great impetus that the Second World War has given to industrialization all over the world. The possibilities arising from industrialization of backward countries, along with speculations about the technological progress, is a subject likely to fire the imagination of everyone. It inspires hope that, once the war is over, more people than ever before will be able to enjoy a higher standard of living. One of the most important prerequisites for the well-being of the world is unquestionably a greater equality of economic opportunities between different nations. The way to it lies in the creation of more wealth and in the better distribution of this wealth. This is why industrialization, the freeing of world trade and, of course, the spread of education, are such important factors in the maintenance of peace.

All this is far from saying, however, that industrialization is, as the man in the street is apt to believe, the panacea for all world ills. Though it is undeniable that the speeding-up of productive activity results in the long run in an over-all increase of wealth and in a higher real income for the individual, the truth is that, along with the benefits that it bestows, industrialization also creates problems: economic, social and political. And there are cases where it can be a disturbing rather than a steady element in the world peace. Thus in some of the Far

Eastern countries a slight rise in the standard of living has led not to an increase in the per capita real income, but rather to a disturbing increase in population.

Moreover, a fact not fully appreciated is that industrialization on a worldwide scale, as is taking place now, will speed-up further the tempo of economic changes. The implication of this for the older industrial countries, including the United States, is, as the League of Nations pointed out in one of its recent studies, "that it will be necessary to keep their production as mobile as possible, so as to meet and absorb the constant series of shocks that changes in external demand will cause."

In practice this means that the American industrialist engaged in exporting, will have to be prepared for a constant readaptation of his plant to the changing demands from abroad, perhaps at a rate faster than ever before. Along with Great Britain and the older industrial countries of Continental Europe, we will have to be ready to shift from the older types of exports: textiles, iron and steel semi-manufactures, simpler chemicals and paper products, to more specialized types: motor vehicles, aircraft, machinery and chemicals, industrial tools and pharmaceuticals.

Fortunately the shift in older industrial countries to the production requiring a higher level of technical and organizational skill has been fostered by the war itself. The wartime expansion in capacity has been principally

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in capital goods industries, the reservoir of highly skilled labor has been increased, and advances made in production technique and industrial efficiency. At the same time, the great dispersion of purchasing power resulting from the purchases of the belligerents and the expenditures of troops, has created a huge potential market for all types of specialized products, for which industries in newer areas are either undeveloped or insufficient.

Broadly speaking, we may say the industries in older areas are likely to play much the same role that the French textile and clothing industries played before the war: they concentrated on the creation of new designs and styles, rather than on a mass production of low-priced, simple goods. The long-term implications of this development are that the older industrial countries will cease to be "the workshops of the world" that they used to be. It will be a further blow to the industrial hegemony of the Continent of Europe.

Of the social and political problems created by industrialization, one of the most important is the emergence of an urban working class. It is a development especially disturbing for the countries whose political and social structure has up to now been based almost solely on agriculture. It has been responsible in one way or another for the ups and downs in Mexico, for the bickerings in South Africa, and recently also for the political experiments in Argentina. On the other hand, it is the industrial urban population whose purchasing power is likely to grow most in regard to both domestic and imported goods. The supplying of the needs of this emerging group has already encouraged, in Latin America and elsewhere, the diversification of local production. In turn, the broadening of the local markets has lessened the dependence upon external trade for prosperity, and led to a greater economic stability in general.

Ever since the industrial revolution began nearly 200 years ago, industrialization has spread in waves of varying intensity and scope. It is no exaggeration to say that the present wave, for which the Second World War is chiefly responsible, is perhaps the greatest of them all. At least it seems so, in view of the fact that there is hardly a country which has not built or added to its industrial plant. With the blackout on statistical information, there is no way of measuring or comparing the extent of this latest wave. Guess-estimates have been advanced that the world's manufacturing capacity may have increased during the five-year period, 1939-1943, from 50 to 100 per cent, which, if true, would indicate an unprecedented expansion within so short a span of years.

Judged by the expansion of industrial output during the period 1914-1915, the increase in the manufacturing capacity during the wave of industrialization that accompanied and followed the First World War, was probably between 50 and 60 per cent. At present only about a dozen countries (see the accompanying table) still continue to publish industrial production indexes. These nations contributed before the war (on the basis of weights used by the League

of Nations) about 45 per cent of world's industrial output. A rough computation indicates that their combined industrial output was in 1943 about 115 per cent higher than in 1939. The increase in the total world industrial production would unquestionably be much less, owing to the fact that in many important European countries, such as Belgium, France, Italy and Spain, the present level of industrial production is reported to be considerably below the pre-war level. It will take a long time for it to be restored.

With all the talk about the spread of industrialization in Latin America, the Near East, India, Egypt, and Australasia, it is not fully appreciated that by far the greatest additions to the pre-war industrial capacity have occurred in the older industrial areas and in the belligerent countries in particular, since they have been forced to whip up their industrial machines hugely. It is said that the manufacturing capacity in the United States alone must have doubled. There are only a few yardsticks available by which this point could be proved. These yardsticks, such as the installed horsepower capacity or the number of industrial workers employed, are, moreover, far from satisfactory, since they do not take into account the productivity per worker, which can vary widely from country to country.

Thus in the United States, for example, the number of wage earners employed in all manufacturing industries rose from about 8,300,000 in 1939 to about 13,200,000 in April 1944, an increase of some 4,900,000. In Brazil, one of the countries where industrial expansion has been the most pronounced, industrial employment rose from about 1,000,000 in 1938 to about 1,600,000 in 1943. In Canada, the number of wage earners in industries increased during the war by about 600,000 to a total of 1,200,000 in 1943. In Mexico, industrial firms employed about 350,000 workers in 1943. In Colombia, Egypt, Uruguay, Chile, despite huge relative increases during the war, the number of workers employed in industries is still below 150,000.

Comparisons between industries in the older and newer countries on a basis of the value of the output, are even more striking though perhaps less accurate. The value of industrial output in the United States has, for example, about doubled since 1937 and is at present at least \$125 billions. In Argentina the value of industrial production also nearly doubled but was less than \$2.5 billions in 1943. In Brazil, where the value actually trebled in the last ten years, it was only \$1.8 billions.

There is, of course, another side to this picture. In all the belligerent countries, the industrial capacity has been obviously over-expanded because of wartime needs. A large part of it will probably be scrapped. There will be industrial enterprises where wartime wear and tear on machinery will force a curtailment in output. This will be true in particular of the industries on the Continent. Many factories eliminated during the period of production concentration will never be reopened. Hence,

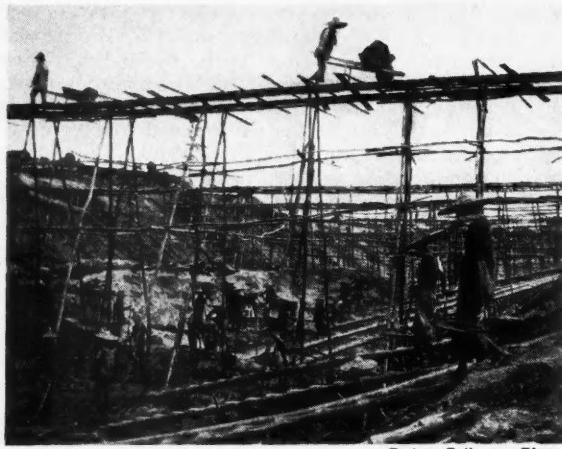
COMPARISON OF INDUSTRIAL EMPLOYMENT AND VALUE OF INDUSTRIAL PRODUCTION OF THE UNITED STATES WITH THAT OF CANADA AND LATIN AMERICA

	Number of Wage Earners	Value of Production (000,000 dollars)	1942 to '39	1943 to '43	1937 or '43
United States.....	8,300,000	13,600,000	60,700	125,000(e)	
Canada.....	650,000	1,210,000	4,000	9,000(e)	
Argentina.....	700,000	1,000,000	1,300	2,150	
Bolivia.....	10,000				
Brazil.....	950,000	1,590,000	1,000	1,800	
Colombia.....	40,000		120		
Cuba.....	30,000		240		
Chile.....	110,000		330		
Dominican Repub.	80,000				
Mexico.....	240,000	350,000	550		
Peru.....	30,000	40,000	180	270	
Uruguay.....	90,000		160		
Venezuela.....	30,000		280		
Total L. A.....	9,310,000		5,000		

(e) Estimates.

Source: Inter-American Statistical Yearbook, League of Nations Bulletins, etc.

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Ewing Galloway Photo

Tin mining in Federated Malay States showing scaffold runways

in all the belligerent countries the industrial capacity that now looms so huge, is likely to be considerably reduced.

On the other hand, the process is likely to be reversed in newly industrialized countries like Latin America and India. There the industrial capacity will continue to expand. The considerable reserves accumulated by the industries in these countries during the war, will be used for the purchase of up to date machinery and for further expansion. The textile industries in Egypt, Brazil, Turkey, and Mexico, which in some cases have been using second hand machinery bought during the depression years, will be in a position to buy the most modern equipment. In India, the Bombay industrialists recently proposed that the accumulated sterling balances should be used to expand the country's present industrial capacity several times its present size. This sounds ambitious until one is reminded that out of some 380 million people in the country, only about 500,000 are employed in industries at present.

Hence, it will take some time before the extent of the industrialization for which the Second World War gave the impetus is fully realized. After the First World War, the changes in the world's industrial set-up were not appreciated until during the latter 'Twenties when the post-war rehabilitation of European industries was completed.

However, for the average American businessman interested in the world's industrial set-up after the war, more important than the matter of actual increases in capacity, production, or labor force—about which there is rather little information anyhow—is the pattern of the latest wave of industrialization. This pattern is somewhat different from that which industrialization followed during the First World War. Hence, the problems that we are likely to face will be different also.

During the First World War, the industries which spread into "newer" countries, at that time India, South Africa, Australia, New Zealand, Argentina, Brazil, and Chile, were predominantly the *consumption goods industries*, such as shoe manufacturing, textile and clothing industries, food processing, and the production of fertilizers and cement. Hence, when the older industrial countries rehabilitated their production during the early 'Twenties, it was the consumption industries that suffered principally from excess capacity and were

the first ones to be plunged into depression, even though the rising standard of living helped in absorbing their increased output.

The expansion of capital goods capacity during the First World War was limited almost exclusively to the older industrial countries. The most important expansion took place in the United States, which rounded up its industrial structure in general. Canada and Japan also introduced some capital goods industries, but they did not prosper. The Japanese steel industry, for which there was not much economic basis, collapsed completely during the 1921 depression.

The wave of industrialization during the early 'Thirties was brought about by the depression. The object at first was to become more self-sufficient, to import less and thereby to relieve the pressure on the country's international payments. Later, this wave of industrialization turned into an armament race. During this period, the most far-reaching was the industrialization of Japan. At the beginning, the new industries, chiefly capital goods, were seemingly introduced with a view of diversifying the country's production and exports. Later, they turned out to be the means for building up a military machine for conquest. Elsewhere, in Australia, South Africa, Canada, Argentina, and Brazil, a few capital goods industries were introduced with varied success and to supply principally the domestic market. In other Latin American countries, in southeastern Europe, and in the Middle East, the expansion and diversification was chiefly in consumption goods industries.

The outstanding characteristic of the present wave of industrialization is that it has fostered the *expansion of capital goods rather than of consumption goods*. As a result, what may be called industrial maturity has been reached not only by Japan (and, of course, the Soviet Union), but also Canada and Australia. All had attained small surpluses of capital goods for export, in addition to consumption goods.

In Argentina, Brazil, Chile, Mexico, South Africa, India, Turkey, Palestine, and Egypt, the newly introduced capital goods industries will be able to satisfy only a part of the post-war demand, which is likely to be considerable. But the beginning has been made, and as these industries will train men, they will, unquestionably, continue to grow. The consumption goods in these

INDEXES OF INDUSTRIAL PRODUCTION 1939 = 100

	1939	1941	1942	1943	Approx. % of of Wld Capa- city (c)
United States (manft.)...	100	155	194	237	33.0
Canada (manft.).....	100	169	234	283	2.8
Chile (general).....	100	114	112	120(a)	.4
Mexico (general).....	100	104	110	118(a)	1.0
India (general).....	100	125	116	115(a)	2.5
Argentina (general)....	100	108	117	119	2.5
Bulgaria (general).....	100	118	111	115(b)	.2
Denmark (general)....	100	77	81	81	.5
Finland (expt. indus.)...	100	42	46	48(a)	.2
Ireland (general).....	100	92	—	77(a)	.2
Sweden (general).....	100	84	87	88	1.6
Hungary (general)....	100	109	112	115	.6

(a) Third Quarter, 1943. (b) Second Quarter, 1943.

(c) Base on Horse Power installed in industry and industrial population.

Source: League of Nations Bulletins.

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INDUSTRIAL EMPLOYMENT
Indexes: Jan.-June = 100

	1939	1941	1942	1943
United States (mft. indus.)	100	138	159	176
Canada (mft. indus.)	100	159	193	209
Australia (mft. indus.)	100	123	131	135
South Africa (indus. & mines)	100	110	114	107
Argentina (indus. & mines)	100	109	115	118
Chile (mft. indus.)	100	120	125	121(b)
Palestine (mft. indus.)	100	129	163	217(b)
Japan (mft. indus.)	100	108	119	135(b)
Sweden (Indus. & mines)	100	89	92	93
Switzerland (indus.)	100	105	107	102
Hungary (general)	100	136	148	158(a)
Denmark (hours worked in indus.)	100	93	101	100
(a) Third Quarter. (b) May, 1943.				

Source: League of Nations.

countries have not expanded their capacity very much, simply because it has been impossible in most cases to obtain additional machinery and equipment. But these industries have almost invariably prospered, since they have had practical monopolies of local markets. As has already been pointed out, their productivity is likely to increase, since they will probably re-equip themselves with modern machinery. This development and tariff protection will make their position quite strong.

The newcomers in the field of industrialization during this war have been many: Ecuador, Venezuela, Central America, the Dominican Republic, Syria, Iraq, Iran, Afghanistan, and the Philippines (the Japanese are said to be introducing the cotton textile industry there). The new industries are producing principally consumption goods, and their total combined capacity is still small.

The picture of world industrialization that has been presented here is, however, far from complete. Nothing has been said about Continental Europe, where there has taken place a great reshuffling of industries to the places of comparative safety from bombing. Many capital goods industries concentrated in Germany during the early years of the war, have more recently been moved to Austria, Czechoslovakia, Western Poland, and even to Hungary. How permanent these shifts are, is a question. Some shifting of industries has also taken place within the area of Japanese conquest. Apparently some of the capital goods industries which up to now have been concentrated in Japan proper are said to have been removed to Manchukuo and Northern China, either because of greater safety or because they will be nearer to raw materials.

In conclusion one may find himself speculating as to what the aftermath of this latest wave of industrialization is likely to be. In the first place, a greater concentration on capital goods industries would lead one to believe that the industrialization in general will be speeded up and that the creation of wealth, and hence the increase in the real purchasing power per head, will be faster than in the past. Second, the consumption industries should be relatively more prosperous than after the First World War, (a) because there has not been such expansion of their capacity, and (b) because there should be more purchasing power all around.

As to the outstanding developments, such as there were after the First World War, (the emergence of Japan as one of the leading exporters of cotton goods, of the United States as by far the greatest exporter of capital goods, etc.), here are some developments which may materialize after this War.

(1) Brazil's cotton textile industry, modernized and reequipped, and based on home grown raw material, may successfully compete in world export markets for cotton goods.

(2) Egypt's cotton textile industry, also using home grown raw material and with large labor reservoir, is likely to expand quickly and eventually even to enter world export markets.

(3) Argentina's woolen industry shows great promise and may become one of the great industries of that country.

(4) Canada is likely to become an important *exporter of capital goods* (simpler machinery, electrical appliances) and a competitor of the United States.

(5) India's iron and steel industry, favored by the nearness of coal to rich iron ore, is due for a considerable expansion after the war; there is a promising field for the development of agricultural machinery and tool industry; India may also become an important exporter of iron and steel semi-manufactures.

(6) Palestine is likely to expand her export trade in chemicals and pharmaceuticals.

Certainly in the early post-war years the indicated trends in the more newly industrialized countries—as well as rehabilitation needs of war-ravaged areas of Europe and Asia—will assure large exports of American capital goods, if means of financing can be worked out: this being another story which we will not deal with here.

Moreover, from a very long-range perspective, increasing productivity of the world—more diffused through the world—ought to be a good thing for all peoples. If every country had a living standard equal to ours, the potential for our two-way trade would surely be far greater than ever before, though its composition would be much different from the past.

On the other hand, to repeat, the industrialization of backward nations is no cure-all for human problems.



Sov. Foto

A gold miner boring at the Salairsk gold-fields in Russia

Happening in Washington

CARTERS ENCL. MORNING PROSE

By E. K. T.

No Holiday from wartime tax levels in the post-war period can be read into the Republican platform or the Democratic plans. Both parties are zealously at work on the subject but they're holding out the promise of

Washington Sees:

Despite the shrill attack on Dewey by the left-wing press—much of which was isolationist until Hitler invaded Russia—there will be no issue of isolationism vs non-isolationism in the election campaign. That issue is dead. Dewey spoke simple fact when he said that only a small minority of extremists favor either aloofness or a world state, with its implications of some surrender of sovereignty, internationalized armed forces, etc.

There is, indeed, a "broad area of agreement" on the general objectives of our foreign policy. But that is only a starting point. The crucial—and enormously difficult—questions have to do with ways and means of cooperative international effort. If Dewey be challenged to offer a detailed blueprint, he can reply in truth that neither Roosevelt nor Churchill have been able to produce one.

Churchill has said "it would be stepping out of our place in the forward march for us to go beyond the gradual formulation of opinion and ideas which is vitally going on in the British Commonwealth and in contact with our principal allies." On these matters, Roosevelt is also a gradualist, not an extremist. Necessarily, his approach is exploratory, rather than fully chartable.

The foreign issue in the campaign, therefore, will boil down to the question whether Roosevelt or Dewey can provide the wisest and most effective leadership in "the gradual formulation of opinion and ideas" and in the execution of whatever program evolves from these processes. On this issue, Roosevelt would be the popular choice today and Dewey has a job to do in trying to reverse it. Probably neither will offer the voters a "plan" of world organization. It just isn't that simple.

equalization, not reduction. When the tempo of spending for production slows, the flow into veteran relief will quicken. And "made work," scorned as it was a decade ago, is firmly integrated into the plans.

Federal Agencies which led the way toward a longer work-week are getting ready to reduce it with the first step being a universal Saturday afternoon half holiday. Despite doubled penalties for Saturday absences, they have been numerous. The product of those present has suffered and it isn't a "paying proposition" agency supervisors say. Labor unions are becoming vocal on the point, will claim the ultimate victory although they were late in the field.

Industry soon will get back many of its key figures who were taken into the military services and given high-ranking commissions, particularly in the fields of supply and production. The Truman Committee has called on the armed services to report the need for retaining all officers who came in after Pearl Harbor; to report whether they would not be more valuable in their erstwhile peacetime pursuits. Many of the officers privately agree, but don't want to be put in the position of laying aside their uniforms in wartime.

Meat Supplies on the civilian front will remain relatively generous during July. Only minor rationing changes—such as those just announced—are likely unto Fall, and they are planned with a thought to better distribution rather than "feasts or famines." Local slaughtering, a business enterprise that has all been but forgotten and its staffs released, will be back into its own. Differentials in ceiling prices in favor of the local abattoir will reopen thousands of business houses in the next several weeks.

Minister Procope's walking papers which sent him back to his native Finland found mixed reactions in Washington. To many it was a sop to Russia, currently in the second round of its renewed war against that country—but the United States had not broken relations, actually had invited a successor to be sent here. However, the recent increased subservience of Finland to Germany changed the picture and rupture of relations naturally followed this change.

AS WE GO TO PRESS

As California's Gov. Warren said, the Republicans have an uphill fight to win the election. But it will be a real fight and no push-over for Mr. Roosevelt. In Dewey, the GOP nominated its best available vote-getter, its ablest political strategist and its most effective campaigner.

In one respect Dewey's traditional luck failed him in the convention. He wanted Warren for vice-president. That would have made a younger, more progressive team. It also would have added to GOP strength on the West Coast where -- outside of the South -- it has been at lowest ebb.

Bricker's nomination naturally pleases a great many Republicans -- but mostly those of the type that would have voted for any GOP ticket. Though personally an attractive figure of a man, his somewhat "old-fashioned" philosophy of government and its relation to economic problems will not appeal to independent, non-partisan voters; and these hold the answer to the election.

Assuming, however, that the Democratic combination is again Roosevelt and Wallace, it seems plain that Wallace would cost Roosevelt more votes than Bricker would cost Dewey. This is inherent in the age factors. The chance of Vice President Wallace becoming President would be far greater than the chance of Vice president Bricker inheriting the role. Many people who strongly favor Roosevelt just don't go for Mr. Wallace.

In general, the better the war outlook becomes in point of time, the better will be Dewey's prospects of winning the election. So far as diplomatic policy is concerned, Dewey will have a good chance of being elected if enough independent voters accept his argument that a durable peace structure, maintained by wide international cooperation, can only be built step by step over a long period of time; and if enough voters share his expressed doubts that a satisfactory solution can not be provided either by the words of any treaty or the private negotiations of the heads of the three great powers.

Americans detest above all what they regard as poor sportsmanship. If Willkie continues to deny his support to Dewey, many people will doubt very much that it is solely a matter of principle. They will remember that Dewey could well have been a sore-head in 1940, when Willkie's late rush snatched the nomination from him. They will remember that though Dewey preferred other candidates -- especially himself -- he nevertheless worked his head off campaigning for Willkie and was very effective in behalf of Willkie in the Middle West.

Because of the psychological factors cited here, it is at least open to some question whether Willkie -- by taking a walk or even perhaps by plumping for Mr. Roosevelt -- might have as much influence on the election as some people have imagined.

Critics of Congress were surprised at ability of that unwieldy body to legislate in a hurry when a definite goal is ahead, the goal in this instance a convention and campaign recess. That bills moved into law with rapidity insuring they passed with few Congressmen knowing their content and purpose, is not surprising. Not unusual.

Congress' action reviewed over 1944 was good, and it was bad. It was good-and-bad on the subject of Federal financing. The tax bill wasn't fit, in its potential yield, to make a dent in government operating costs in a year of "Coolidge prosperity." The simplification bill removed some of the curse.

Price-control, after many assaults and efforts to tie onto it every loose end of legislation remaining in a Capital Hill pigeon-hole, came out as a simple extension measure. The O P A was satisfied with the results.

War veterans received their current demands. The "G. I. Bill of Rights" went through on schedule with some of its trading points buffed off but with the substance reasonably intact. It is the first of what will be a long series. The soldiers vote bill won't permit soldiers to vote, except in special cases made to order for its provisions.

Industry's principal interest for the time being -- reconversion -- was a major point at which the lawmakers flopped. The Congress gave a nod of recognition to industry in the form of a war contract termination bill but that is only one of several needed to chart the route back to production for civilian use. Reconversion was talked of at length but nothing was done about it.

Disposition of surplus war materials remained little more than the title of an expressed aspiration and integrating of the re-employment system on a national basis didn't get a serious thought although its lack delayed recovery a decade ago.

Export authorities are looking to Canada as an increasingly important source of international trade in the post-war period. This country always has bought heavily of the Dominion's newsprint supply, but since the war that traffic has ceased almost entirely -- yet Canada's exports went up 221 per cent.

Despite the natural shipping advantages existing, laws on both sides of the International Border until recently were frankly designed to discourage trade. With few exceptions, we bought from that Nation things we couldn't produce; on the other hand.

Canada not only bought a diversified bill of goods from this country but returned all, and more, of the money she received in the form of added purchases.

Ray Atherton, U. S. Ambassador to Canada, has broached the subject to President Roosevelt and the State Department. They have expressed interest. Studies are being made by both offices and by the Department of Commerce and the Tariff Commission. Congress definitely will be asked to loosen up the law on goods moving through customs at the Border.

No one speaks with complete authority in the field as yet, but the planners are agreed on several major propositions: Next year -- 1945 -- Germany will be out of the war, Federal costs will drop almost instantly from \$90,000,000 to \$50,000,000 the first year.

Discharges from the army, the overall picture continues, will number 250,000 the first year; only 18 year olds will be drafted; rationing will liberalize; materials will begin piling up; navy and air corps suppliers will continue as usual, others will feel a precipitous drop in orders.

And: 1946 will see Japan defeated, reconversion under way and taking up the slack, the new building boom on, international trade a Godsend, the great automobile industry rolling cars looking very much the same as 1941 models off the assembly line.

Difference of opinion is found in published reports as to whether the post war "boom" (that word is used advisedly) will last three, five or ten years. All agree that the effectiveness of immediate post-war price control will be determinative of the length.

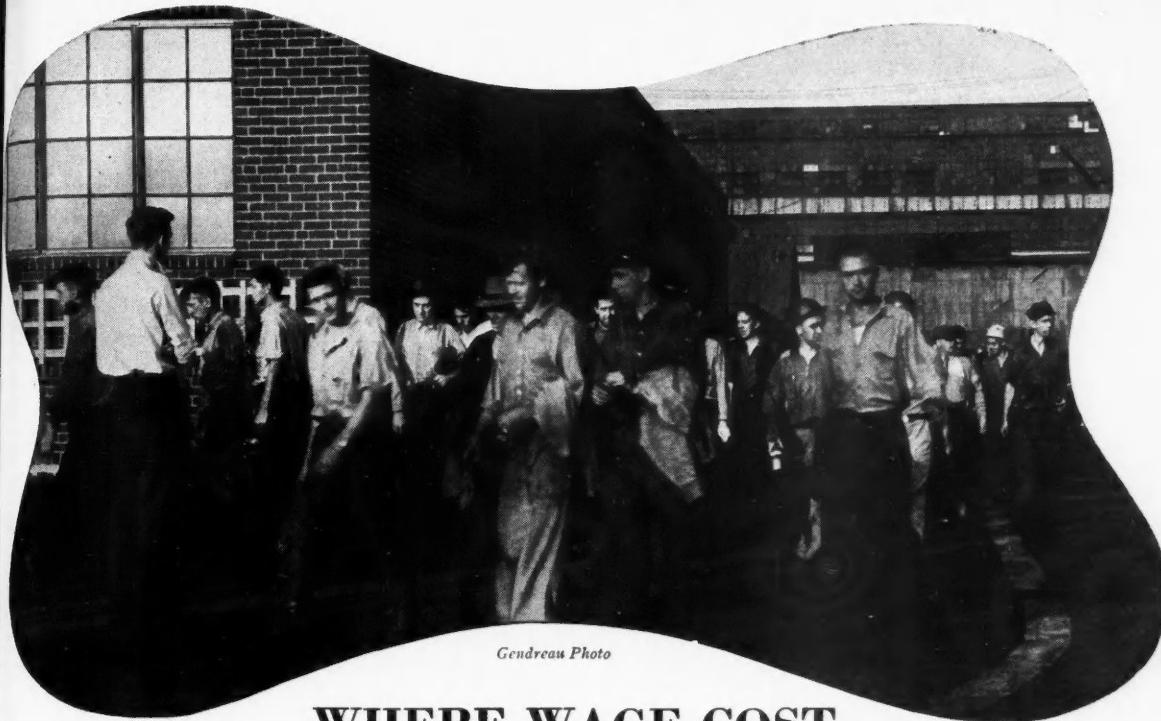
Congressional action to continue the Fair Employment Practices Committee another year presages creation of a permanent agency in that field. Legislation already is ready; it may be enacted at this session for it has the votes as of today.

White House approval serves further to infuriate the already rebellious Southern states. Demanding barriers against race equality as the price of their electoral votes they found the Administration moving in the opposite direction.

Hardly to be classed as a political faux pas was the White House position. Few doubt the Southern states will be in line when the blue chips are down next November. Any other course is biting off the nose to spite the face. On the other hand, New York, Pennsylvania and Illinois have sufficient Negro voters to be the balance of power in a close race.

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JULY 8



Gendreau Photo

WHERE WAGE COST DIFFERENTIALS WILL IMPORTANTLY AFFECT POST-WAR INVESTMENT VALUES

BY P. T. SHELDICK

THE sharp war-time rise in basic wage scales, an average of about 50% in manufacturing industries since 1940, will require drastic upward revision of post-war selling prices if profit margins are to be maintained at reasonable levels. There is little prospect that wages after the war will decline importantly. Politically powerful labor unions are aggressively preparing the ground to insure retention of wartime gains, and a paternalistic Government is not likely to interfere greatly with this aim. If anything, labor policy and thinking in certain Government circles veers in the direction of eventually higher rather than lower wage scales.

Business and industry are well aware of these trends and ready to take them into account in post-war planning. Hence predictions that selling prices of many products after the war may run from 20% to 45% above pre-war, reflecting the rise in wages, taxes and materials costs. Barring serious inflation, the latter will probably become a relatively minor factor except where higher materials costs stem directly from higher wages. On the whole, materials prices during this war rose moderately, thanks to price controls which are likely to stay with us until more normal demand and supply factors are again operating.

Taxes are expected to be lowered, though by no means to pre-war levels, to aid reconversion and post-war business. Wages alone, according to the present outlook, are likely to remain where they are and thereby promise to

become an even more important differential in price-cost relationships.

So far, no decision has been announced on official pricing policies during the transitional period but preference appears to lean towards continuance of tight pricing methods in the interest of greater economic stability. Should this view finally prevail, it would not only prevent any widening of profit margins but may actually tend to narrow them in a good many instances unless temporarily obscured cost factors incident to peacetime manufacture are fully allowed for. At any rate, prices will be held down and when controls are finally lifted, after the transitional period, any attempt to raise them may meet with considerable consumer resistance.

In more thoughtful business quarters, this possibility is receiving much attention and there is apprehension over what it may do to post-war earnings prospects, especially should it coincide with economic uncertainty and its throttling effect on public spending mentality. Under such circumstances, sales volume could only be maintained by lower prices, for it is questionable whether wage scales could be forced down. More likely, not only the labor unions but Government itself would insist on maintenance of wage scales in order to support public purchasing power. The result might well be an unpleasant squeeze of profit margins, particularly affecting industries with high labor ratios.

While it is impossible to say at this time exactly how

APPROXIMATE WAGE RATIOS ON MAJOR INDUSTRY GROUPS*

Food and kindred products.....	25%
Tobacco manufactures.....	19%
Textile mill products.....	50%
Apparel.....	47%
Lumber and timber basic products.....	50%
Furniture and finished lumber products.....	44%
Paper and allied products.....	35%
Printing and publishing.....	28%
Chemicals and allied products.....	27%
Products of petroleum and coal.....	25%
Rubber products.....	25%
Leather and leather products.....	40%
Iron and steel, and products.....	44%
Non-ferrous metals and products.....	36%
Electrical machinery.....	34%
Industrial machinery.....	35%
Automobiles and equipment.....	48%
Transportation equipment.....	50%

*Based on 1939 Census.

cost factors will line up after the war, it is never too soon to look ahead. There is hardly any doubt that wages in the future will bulk larger as a primary cost determinant in many industries; that much is freely admitted in business circles. Their significance as an investment consideration is bound to rise correspondingly since industries with low wage ratios will find themselves better situated in coping with the price and competitive problems of the future. They should enjoy an important differential advantage which should grow in direct proportion to the payroll burden which future paternalistic or social measures of Government may impose on corporate business.

Take steel, for instance. The fear that higher wage scales and relatively low steel prices may have raised permanently the pay point for the steel industry has been a prominent factor accounting for the laggardness of steel shares. Wages in the steel industry constitute an important cost factor and today account for something like 40% of costs against 36½% in 1942. The ratio used to be higher (as much as 49% in 1939) but it has since declined with greater volume production and increased mechanization. As volume recedes, as it will after the war, the wage ratio may again advance unless mechanization and production economies can be further extended. To this of course there is a limit and a permanently higher pay point in the future will further enhance the already prominent cyclical factor which has made the steel industry the nation's leading "Prince and Pauper" industry.

There is much precedent for the deleterious impact of the wage factor on corporate earnings. The sudden rise in wage rates during 1936-37, following enactment of the Wagner Act, played havoc with the operating income of numerous companies. Earnings of food chains, where payrolls are a big factor, were depressed with the result that a goodly number of dividends were either suspended or reduced for some time. Income of marine transportation companies was severely affected. In restaurants, variety chains, textiles and the communications industries where cost-price adjustments had long been based on the employment of low-wage labor, drastic adjustments had to be made. Western Union, for example, was especially hard hit (with about 64% of gross at that time paid out for wages) and the stock price responded to the blow by declining in the face of

a rising market since there was no way of passing the higher wage cost on to the customer.

In spite of this, communications companies, among low-wage industries with a high labor ratio, did not do too badly because of the expanding demand trend then evident in their business. At present, the wage ratio of the telephone industry is about 57%, that of Western Union about 60%. Both of course are highly vulnerable to any future measures making for higher payrolls, as mechanization of operations is now far advanced and perhaps close to its practical limit. Moreover, increasing radio communication may eventually cut into the business of the telegraph companies, already feeling the competition of long-distance telephone and the teletype.

The impact of the wage factor was even worse in the coal industry where the wage ratio runs around 60%. Any industry operating on a relatively low wage scale, with a high ratio of labor costs to total costs, is always exposed to the danger of strikes or Government action to force higher wages. As we know only too well, the coal industry had to face both, and with labor now in the saddle, it usually emerged as the loser.

Then there are the railroads, with an average wage ratio of about 65%. They, too, are extremely vulnerable to wage increases and other payroll burdens, such as social security levies. So far, by dint of greatly increased efficiency of operations, the carriers have been able to offset in large measure the rise of wage scales since the Thirties. Still, wage costs in the future will probably continue to follow the upward trend in evidence since 1920 and, coupled with competitive influences, such a development, unless balanced by rising rates, eventually may again place the railroads in a precarious position. In contrast, utilities, with a wage ratio of an average of 28%, are far more immune to such unsettling influences.

Other industries with relatively high wage ratios, and those having low or medium ratios, are listed on the appended table. Information as to the relationships of wages to costs is not generally available, since corporations rarely furnish exact computations. Only a few very large concerns specify the amount of their payroll, permitting computation of a rough wage ratio. However, the Census Bureau, in its Census of Manufactures, offers detailed data on wage costs in various industries and industry groups which, taken as a percentage of "value added by manufacture" afford a rough but fairly reliable guide to wage ratios. For purposes of general classification, I have prepared a number of wage ratios for industry groups as well as individual industries, based on 1939 Census figures, the latest available. They represent approximate pre-war wage ratios; their validity today, in some instances, may be open to question due to shifts arising from increased operating efficiency and war-time wage increases though in a good many industries, these two factors may balance out. On the whole, the ratios listed should not be far out of line.

Variable Wage Ratios

The principal value to the reader is identification of those industries which are more exposed than others to the danger of rising labor costs. Any future wage increase, or imposition of higher social security taxes, a possible boost in the rate for workmen's compensation, a revision of the minimum wage law or other measures potentially swelling future payrolls would be a serious factor in all those industries where the wage ratio is high. Not only that, but they may have difficulty in

carrying war-time wage increases into peace-time production. Possible repercussions are not only in the form of slimmer profit margins but, perhaps more seriously, of competitive conflicts as well, since many industries with high wage ratios are competing with others having low ratios. In transportation, for instance, railroads with a high percentage of labor to operating costs must compete with pipelines and ocean tankers whose labor costs are very low. In the fuel industry, bituminous coal labor accounts for 60% of total production costs while the wage ratio of the manufactured gas industry is only around 16%; in oil refining, producing competitive fuel oil, the ratio averages about 24% and in some cases is as low as 15%. In the textile industry, cotton mills have a far higher wage ratio than the rayon industry. True, these factors are not new and have been operating, incisively, for quite some time. But they may become even more pronounced in the future!

Wages and Demand Trends

The solid fuel industry, generally, has been unable to absorb any further wage increases without raising the selling prices—already strictly regulated—but the oil and manufactured gas industries, thanks to low labor ratios, can and could absorb them without particular strain on profit margins. Together with declining demand trends, this inability has long been the bane of the coal industry, the cotton and woolen industries, even the railroads, and seriously restricts their future outlook.

Naturally, this does not mean that wage ratios are necessarily higher in declining than in expanding industries. The labor-cost relationship is independent of prosperity of any industry. It is an outgrowth of the nature of the manufacturing process, the extent of mechanization, of the volume of raw and semi-finished materials used and of the distribution services needed in marketing. Some expanding industries such as chemicals, cigarettes and chewing gum have low labor ratios. The volume of raw materials handled, compared with the value of the finished product, is small. Transportation costs, an expensive labor-using service, therefore, is relatively unimportant.

Other industries, with ascending demand trends, have high labor ratios. Light steel, automobiles and accessories, and the aluminum industry are illustrations of the point. Invariably, a fairly large number of labor operations are involved in the production process, and transportation costs of raw materials are heavy. The continuous rolling mill has decreased the number of workers per unit of output, hence the wage ratio in light steel is smaller than in heavy steel. This explains why, for instance, U. S. Steel Corporation last year had an approximate wage ratio of 47% while the steel industry as a whole averaged only 40%. In 1939, the ratio of U. S. Steel, primarily a producer of heavy steel products, was roughly 55% but the increasing proportion of light steel output and capacity volume has since reduced the ratio. Growing modernization of steel plants and increasing mechanization of operations in the steel industry as a whole is clearly reflected by the ratio decline between 1939 and 1943 from about 49% to 40% though volume operations naturally contributed to this showing.

A somewhat similar situation is found in the automobile and accessories industries. Mechanization has played an increasingly large part in their operations. The wage ratio of General Motors, for instance, in 1939 was roughly 37% and declined to 35% in 1941 only to rise to 41% by 1943, under all-out war operations. By

comparison, the ratio of the automotive industry as a whole in 1939 was an estimated 48%, heavily weighted by the considerably higher ratios of the body and equipment makers, compared with assembly operations. Equipment and accessories makers, therefore, will be harder hit by higher wage scales than the leading automobile companies whose principal activity lies in automobile assembly.

The same cross currents of costs appear in declining industries. In some, labor costs are high, in others low. The manufactured gas industry which developed symptoms of decay in the past ten years, and flour milling where pre-war demand had been slowly receding due to changes in the nation's dietary habits, both have very low labor ratios. On the other hand, in woolen and cotton goods, and in lumber where demand trends also have been retrograding, wage ratios are among the highest. It is well to bear in mind that when demand does decline, industries with high labor ratios are far less able than others to resist or correct this trend.

Normally, if the demand trend is favorable, an increase in wages is not met by price increases but by lowering prices and thereby boosting volume. The expanding industry, under astute management, reduces costs by operating economies and above all, plant modernization. It does not invite competition by raising prices. In a stationary or declining industry, on the other hand, a high wage ratio may transform latent obsolescence into active obsolescence. In view of this, the long-term investor will do well to appraise future price developments in this particular light, to look for such or similar symptoms. Where industries insist on higher prices to compensate for higher wages, the conclusion is often justified that the demand trend is not favorable and that the limit of compensatory operating economies is approached or has been reached. Such symptoms frequently can be detected long before the market becomes conscious of them. The investment conclusion, in such cases, is usually to sell out or at any rate not acquire holdings in such industries.

Past examples are the coal, (Please turn to page 374)

***INDUSTRIES WITH LOW WAGE RATIOS (Below 20%)**

Chewing gum.....	7%	Corn syrup.....	18%
Soft drinks.....	10%	Vegetable oils.....	18%
Cereals.....	13%	Paints & varnishes.....	19%
Soap.....	13%	Cigars, Cigarettes.....	19%
Tobacco.....	15%	Printing ink.....	19%
Gas, manufactured.....	16%	Flour, other grain products.....	19%
Chocolate products.....	18%		

***INDUSTRIES WITH MEDIUM WAGE RATIOS (20% to 40%)**

Printing.....	20%	Glass, flat.....	35%
Petroleum refining.....	24%	Radios.....	36%
Cement.....	25%	Containers (cans).....	37%
Electr. appliances.....	29%	Meat packers.....	38%
Confectionery.....	30%	Tires and tubes.....	39%
Glass containers.....	34%	Aluminum.....	40%
Bakeries.....	35%	Machine tools.....	40%
Rayon.....	35%	Farm equipment.....	40%

***INDUSTRIES WITH HIGH WAGE RATIOS (40% and over)**

Office Equipment.....	41%	Steel works and rolling mills.....	49%
Aircraft and parts.....	42%	Cotton goods.....	54%
Automobile stampings.....	46%	Locomotives.....	54%
Locomotives.....	46%	Ship Building.....	54%

*Based on 1939 Census.



Goodrich Photo
Airplane tires awaiting shipment to world battlefronts

Selecting Best Stocks in the Most Promising Industries

No. 8—RUBBERS

Our Two Stock Selections: Firestone Tire; General Tire

BY WARD GATES

ABOUT very few industries can it be said that changes brought about by the war have effected basic and apparently permanent improvement in investment status. This is outstandingly true, however, of the rubber manufacturing industry. Indeed, in important respects, its position has been revolutionized.

Whatever the future competitive relationship of natural rubber to synthetic rubber, availability of the latter will importantly strengthen the situation of manufacturers of finished rubber goods in the following two ways:

(1) Synthetic rubber—a controlled chemical product—will force a "reasonable" pricing policy upon the producers of foreign natural rubber; and the sharp price gyrations which often plagued the manufacturers in the past will greatly diminish, if not disappear. More is involved than the question of possible inventory losses, which tended to even out over the long term. An important consideration is the amount of capital that must be tied up in inventory. Formerly, it was peculiarly large both because of raw rubber's long shipping routes and because the manufacturers "stocked up" in periods of rising prices.

On any given volume of finished goods output, even partial use of synthetic—plus stable prices for both synthetic and natural rubber—would call for smaller investment in raw material inventory than formerly. Working toward the same end of eased inventory needs is substitution of rayon for cotton in tire cords. Resultant greater liquidity would permit handling larger volume of business without capital financing and/or some retirement in funded debt over the longer term.

(2) Since the characteristics of synthetic can be varied at will for a great range of differing applications, it will enhance the volume potentials in products other than tires and tubes. These "other products" already were showing relatively superior growth, accounting for nearly half of the industry's dollar sales in 1941, against one-third in 1929. This increasing diversification will make for better profit margins, which sometimes in the past had to be trimmed quite low on original equipment tire and tube business with the automobile makers.

We have briefly discussed so far only the most basic—and probably lasting—changes for the better in this industry's situation. There are three other considerations which induce us to include it in our list of "the most promising industries" and which, together with the two changes above noted, account for the fact that rubber

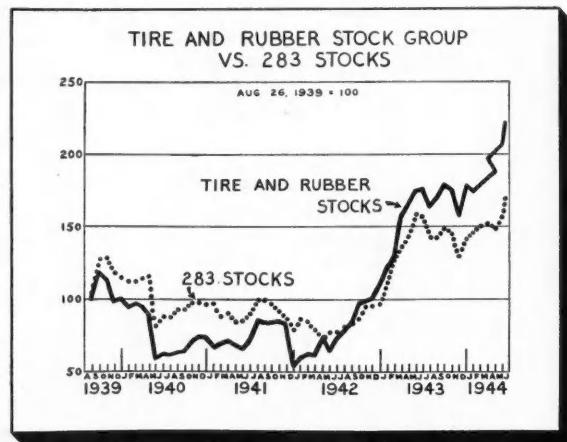
shares have met with much above-average speculative and investment demand for a great many months, their exceptional market strength this year to date merely having been an extension of superior market performance in 1942-1943. These added considerations are:

(1) The industry will benefit from high automobile production for an extensive period after the war.

(2) It has no important reconversion problem as regards peace-time products.

(3) During the period of reconversion in the automobile industry, it will be busy filling replacement needs of civilians for tires, tubes and other rubber articles.

To sum up, we conclude that the outlook for the industry is even more favorable than for the automobile industry and some of the other industries previously discussed in this series of articles. On the other hand—and



this is the fly in the ointment—it is obvious that the market has gone a long way in discounting the favorable considerations. While this publication's index of 283 stocks is some 23 per cent under its 1937 bull market high, our index of rubber shares is well above its 1937 high and, indeed, at the highest figure since 1930. (See accompanying chart.)

Rubber stocks are moderately priced in relation to exceptionally good war-time earnings, though conservative dividends in most cases yield only around 4 per cent. They are not moderately priced, in most cases, in relation to average pre-war earnings—but, of course, the decisive investment-speculative question is post-war profit potential. This will depend largely upon Federal taxes. Yet, with huge volume indicated (measured by past peace-time standards) and assuming prompt elimination of the excess profits tax, it seems virtually a foregone conclusion that for a goodly post-war period—perhaps three to five years—profits will be much above the pre-war average. Figuring post-war contingency charges much lower than now, volume perhaps 10 per cent above 1941, profit margin no lower than in 1941, and effective Federal tax rate of no more than 50 per cent and possibly as low as 40 per cent, some observers believe rubber companies *might possibly* have even somewhat better post-war earnings than now.

Whatever the possibilities, the fact remains that the stocks have already had a very juicy market "play." Therefore, the common sense investment attitude, we think, is to favor purchases only in periods of extensive reaction.

Turning now to the question of individual stock selections (one for investment, one for more speculative appreciation) the analyst is immediately confronted by another unusual thing about the rubber industry: namely that the leading companies differ mainly with respect to size and are remarkably similar so far as concerns the over-all investment or speculative merits of the respective stocks. In token thereof, despite some differences—also not very wide—in capitalizations, we find Firestone, Goodrich, Goodyear and United States Rubber common shares currently priced "in a bunch"—the lowest at 49 (for Goodyear) the highest at a fraction over 53 (for Goodrich).

All have funded debts and sizable preferred issues ahead of their commons. These combined prior obligations amount to \$109 million (roughly) for Goodyear, \$98 million for U. S. Rubber, \$90 million for Firestone, \$73 million for Goodrich. Yet when annual prior charges are figured per share of common outstanding, there is not much difference except in the case of U. S. Rubber where it is high because of 8% rate on non-callable preferred—but this preferred is not cumulative, whereas the others are. Firestone has the lowest prior charges per share of common.

They don't differ much in products or new product potentials, as all make most everything that can be made out of rubber and all are in plastics of one kind or another. All appear to have excellent managements. On this point one

has heard more on the subject of U. S. Rubber and Goodrich managements in comparatively recent times than about the others, for there have been major changes here. Where good management replaces not so good management, that is news. Where good management merely stays where it has long been—to wit, Firestone and Goodyear—that is not news.

Pinned down to a difficult choice, we think Firestone is the No. 1 stock from an investment point of view. We give it the nod—by a far from wide margin of preference—for two reasons: (1) it has the best dividend record of the Big Four, having paid something on the common each year since incorporation in 1910, with the exception of 1922 and 1923; and (2) over a period of some 15 years it has successfully built up a chain of 656 Firestone retail stores, handling many of the company's products and a long list of others. This added factor of diversification seems to us advantageous.

Selection of a lower-price rubber stock for speculation also involves difficulty. Several of the smaller companies—Lee Rubber, General Tire and Dayton Rubber—have 10-year earnings and dividend records relatively as good as those of the Big Four companies and in some respects better. Indeed, Lee Rubber—paying a well-covered \$2.75 dividend, which is larger than current rate of any of the Big Four—is only moderately behind the big companies in market price, being currently at 44½. The other two—General and Dayton—are medium-low-price stocks, the former now around 24½, the latter around 19½. The rubbers of still lower price, such as Seiberling and Norwalk Tire, do not meet the speculative-investment standards required in these selections.

STATISTICAL COMPARISONS

	Firestone Tire	General Tire
Capitalization:		
Funded debt.....	\$44,777,000	None
Preferred Stocks.....	\$45,000,000	\$6,500,000
Common Shares.....	1,945,896	526,862
Market capitalization of common..... (at 50)	\$97,495,000	(at 25)\$13,171,000
<hr/>		
Income Account, 1943 Fiscal year (a)		
Net Sales.....	\$545,389,601	\$51,987,521
Operating Profit.....	\$57,563,000	\$6,690,395
Income Taxes (less post-war refund).....	\$37,450,000	\$5,175,000
Net for common (after reserves).....	\$12,458,608	\$1,575,782
Contingency Reserves.....	\$3,000,000	\$100,000
% of operating profit to sales.....	10.5%	12.6%
Earned per common share.....	\$6.40	\$2.99
Earned on common % of market value.....	12.8%	11.96%
1936-39 average per share.....	\$2.48	\$2.38
1936-39 average net, % of market value.....	4.96%	9.5%
Dividend Rate.....	\$2	\$1
Current Dividend Yield.....	4%	4%
<hr/>		
Balance Sheet (a)		
Cash or equivalent.....	\$34,330,651	\$4,178,255
Receivables, net.....	\$63,049,711	\$5,468,766
Inventories, net.....	\$93,766,250	\$9,049,381
Total current assets.....	\$181,327,268	\$17,632,326
Total current liabilities.....	\$73,606,550	\$4,238,219
Net current assets.....	\$107,720,719	\$13,394,107
Current Ratio.....	2.3	4.1
Book value per common share.....	\$53.26	\$28.00
Net current assets per share (b).....	\$8.38	\$13.08

(a) Fiscal year ended Oct. 31 for Firestone, Nov. 30 for General Tire.

(b) After deducting all prior obligations.

Our No. 2 selection, then, is between General and Dayton; and we favor General. While there is little difference in intrinsic quality, General Tire usually does a volume about three times greater than that of the other company. Moreover, being listed on the New York Stock Exchange—whereas Dayton is a Curb stock—General is the more active, with superior marketability.

Concerning Firestone Tire & Rubber Company—one of the oldest and best known industrial names in America—one could write a sizable book and still tell only part of the story. Therefore, we shall take only a relatively brief backward look and center our attention largely on future potentials.

The Firestone business dates back 44 years to 1900, being of course born with—and growing with—the automobile industry. Though a wide variety of rubber products are made—as well as a growing list of non-rubber items, including plastics and metal alloys—sales of tires and tubes made up nearly 70 per cent of dollar volume in the pre-war years. This ratio will eventually decline as a result of diversification, but hardly can change significantly in the early peace years of heavy demand for tires and tubes—demand higher than ever before.

which tires and tubes are high on the list.

The total investment in foreign countries is \$30,542,612, comparing with total consolidated assets of about \$274,000,000, but profits of foreign subsidiaries for the past fiscal year were \$3,985,918 or over a fourth of total consolidated profit of \$15,183,382; and dividends received from foreign subsidiaries amounted to a bit over \$4,000,000.

Firestone has for years been expanding its production of natural rubber on its own plantations in Liberia. Of 200,000 acres owned, 75,000 have been planted to rubber, and trees on 45,000 acres have matured and are producing. This volume, though not reported, can not for a long time supply any great part of the company's raw material needs. It is not important enough to give Firestone a preference—through vested interest—in natural rubber over synthetic. Like others in the industry, it will in future use either or both, depending upon costs and the physical and chemical characteristics desired for specific applications.

Though sales volume was at record peace-time highs in the period just before the war, profits were not. For all of the industry, the days of lush profit margins—and



A Typical Firestone Store and Service Station

Competitive position has been well maintained over the years. Thus, dollar sales in the active pre-war year 1937 were nearly 10 per cent greater than in 1929, despite much lower product prices. The company owns 19 domestic manufacturing plants and 9 in foreign countries, while subsidiaries operate another 12 domestic plants on leased premises. The foreign plants are in Canada, England, Argentina, Brazil, India, South Africa, Spain and Switzerland.

When civilian production stopped (Firestone is now making dozens of war items) domestic plants had a capacity of about 1,625,000 pounds of tires and tubes daily; foreign plants, about 600,000 pounds daily. No doubt this will be found to have been stepped up when civilian production is resumed. The relatively large foreign producing capacity will "come in handy" after the war, for the whole world is starved for rubber goods. Note that the foreign plants—none in war-ravaged areas of Continental Europe—are in countries where there will not only be good future demand for tires but also adequate purchasing power to pay for large volumes of now under-supplied essential goods of all kinds, among

of inventory windfalls in some years—were back in the middle 1920's. For instance, Firestone had net earnings of \$13,215,522 in 1927 on sales of \$127,696,000; \$7,694,918 in 1929 on sales of \$144,585,000; \$9,269,177 in 1937 on sales of \$156,823,000. In the fiscal year ended last Oct. 31, sales were \$545,389,000, net earnings \$15,183,383, equal to \$6.40 per share on the common stock.

It appears to us, as indicated early in this article, that the long-term investment risks in the rubber manufacturing business have been decreased—yet note that in each of the past five years Firestone set up contingency reserves ranging from minimum of \$1,500,000 to maximum of \$6,650,000 (\$3,000,000 last year); whereas out of the preceding nine years only in one had there been such a provision and then only \$125,000. For the five years ended last October 31 the total of contingency reserves was \$17,300,000, equal to over \$8.80 per common share. The company appears to be well heeled for peace. True, the working capital ratio of 2.3 is much under figure of nearly 6 in 1939 but latter was unusually high, due to special factors. In most pre-war years it ranged between 3 and 4. As war con-

(Please turn to page 364)

EVALUATING LOW-PRICED STOCKS

Presenting 10 Selected Opportunities

BY ROGER CARLESON

In our April 29 issue, we presented an analytical series based on what we consider a sound approach in the evaluation of low-priced common stocks. The need for applying time-tested analytical yardsticks before entering commitments in this type of securities rises in direct proportion to popular buying urge. Low-priced stocks have been in the vanguard of recent advancing markets and therefore observance of sound investment principles is more than ever called for.

Naturally, this applies particularly to long pull investors. Short term traders, having different objectives, operate on different principles. They play for a quick turn and frequently make money in low-priced equities that do not stand the tests we advocate. This has been amply demonstrated in recent advancing markets where low-priced stocks with relatively little or no investment merit have been in strong demand.

In offering this second series of appraisals, we therefore wish to re-emphasize that the conclusions arrived at are with an eye to long term speculative investment rather than short term trading though the possibility of short term price enhancement is of course not precluded. To avoid repetition, the reader is invited to refer to the general principles set forth in our previous article which form the basis of approach in this current series as well.

The statistical exhibit of American Encaustic Tiling, maker of ceramic tile products, is not particularly appealing. Market valuation of the common stock issue compares unfavorably with net tangible assets, pre-war maximum sales and with working capital. It is far out of line with 1943 sales but then 1943 was an abnormal year for the company. The concern is a distinct "war casualty" which accounts for sales shrinking virtually to the vanishing point. Manufacture of tiles ceased in 1942 and operations since have been on a standby basis, awaiting the lifting of restrictions on building construction and the availability of labor for the manufacture of peace-

time products. A sizable building boom after the war should go a long way towards recovery of earning power. Pre-war earnings were erratic and on the whole modest; no dividends have so far been paid on the common. Were the company, after the war, no more than to repeat this showing, the stock selling at 3 against book value of \$2.24 would present no particular bargain; common stock valuation presently is almost equal to pre-war maximum annual sales which together with the absence of dividends implies over-valuation rather than under-valuation.

Pre-war sales figures, in this instance however, somewhat lack normal significance in view of the fact that post-war volume, if a building boom materializes, should outrun pre-war sales by a considerable margin. Pre-war building activity, as we know, was below average. The stock, then, is essentially a radical speculation on the post-war building boom and on this basis is not without some merit. The company is free from debt and its properties are clear of any liens. So far, it has been fairly successful in safeguarding its assets during the war period but working capital has been declining and probably will need replenishment for resumption of peace operations. To sum up: Statistically, the stock is no buy and appears over-valued. However, it has some speculative merit based entirely on expectation of a building boom. The word boom is stressed, for mere average activity in the building field would hardly benefit the company sufficiently to improve on its pre-war showing.

American Hide & Leather, selling at 4 against book value of \$6.07 per share, is another situation with an unsatisfactory earnings record and no dividends paid so far. Reflecting this, and absence of concrete indications of any marked improvement in the future, the stock is statistically cheap, with valuation of the common issue little more than half of working capital and only about one-third of net tangible assets. In relation to sales and the size of the enterprise as a whole, the stock looks equally under-valued. Post-war business for a time

	Am. Encaustic Tiling	Am. Hide & Leather	American Ice	City Stores	Beech Aircraft
Market price of stock.....	3	4½	6¾	9¾	8½
No. of shares outstanding.....	333,879	584,950	559,197	1,209,540	400,000
Total market value of common stock.....	\$1,001,637	\$2,486,038	\$3,774,580	\$11,339,437	\$3,450,000
Preferred stock at par.....	—	\$3,705,000	\$8,980,000	—	—
Preferred stock at market.....	—	\$2,964,000	\$6,196,200	—	—
Funded debt.....	None	None	None	\$12,195,834	None
Sales (1943).....	\$145,899	\$11,830,445	\$13,456,457	\$67,898,670	\$126,578,384
Net earnings (1943).....	d\$63,464	\$686,286	\$310,592	\$1,513,697	\$4,035,965
For period of past eight years (pre-war):					
Maximum Sales.....	\$1,037,286	\$8,742,116	\$14,925,787	\$53,872,064	\$8,062,204
Maximum net earnings.....	\$83,239	\$567,923	\$453,779	\$1,408,175	\$471,715
Maximum net per share.....	\$0.25	\$0.53	d\$0.69	\$1.16	\$1.18
Working capital.....	\$191,910	\$4,250,807	\$4,854,593	\$13,376,124	\$2,699,445
Net tangible assets.....	\$758,647	\$7,256,057	\$16,981,605	\$34,260,501	\$7,020,640

	Federal Motor Truck	Follansbee Steel	Robert Gair	Hat Corporation	Hayes Industries
Market price of stock.....	8 $\frac{5}{8}$	7 $\frac{1}{4}$	4 $\frac{1}{4}$	8 $\frac{1}{2}$ (h)	7 $\frac{3}{4}$
No. of shares outstanding.....	491,543	217,706	1,133,892	469,320(i)	333,000
Total market value of common stock.....	\$4,239,433	\$1,551,155	\$4,818,743	\$3,797,315(i)	\$2,580,750
Preferred stock at par.....	—	\$2,547,900	\$3,787,840	\$2,166,800	—
Preferred stock at market.....	—	\$1,248,471	\$2,749,282	\$2,340,144	—
Funded debt.....	None	\$193,973	\$3,782,850	None	None
Sales (1943).....	\$25,789,358	\$20,366,986	\$26,576,096	\$11,783,991	\$22,482,593
Net earnings (1943).....	\$655,248	\$445,170	\$848,681	\$458,333	\$648,017
For period of past eight years (pre-war):					
Maximum Sales.....	\$10,651,889	\$15,430,145	\$23,393,330	\$11,222,463	\$2,619,451
Maximum net earnings.....	\$819,641	\$445,964	\$1,127,141	\$779,390	\$376,342
Maximum net per share.....	\$1.67	\$1.46	\$0.80	\$1.53	\$1.13
Working capital.....	\$2,672,465	\$2,939,520	\$3,082,983	\$3,856,318	\$1,140,025
Net tangible assets.....	\$4,041,000	\$9,186,830	\$14,354,408	\$5,007,391	\$2,119,150

(i) A & B common.
(h) B common—6 $\frac{3}{4}$.

may be fairly good, permitting moderate earnings gains, but the longer range outlook holds little promise, considering normally keen trade competition and vulnerability of profits to price fluctuations of hides and leather. This greatly detracts from the merit of the moderately priced common, rendering the risk considerably above average. Viewed from this angle, the stock is no buy. Similar conditions explain the apparent cheapness of American Ice, selling at around 6 $\frac{3}{4}$ compared with book value of \$11.68 per share. Statistically, the stock is cheap, with valuation of the common issue below working capital. Valuation of both, the common and preferred, fail to equal net tangible assets. With the arrival of mechanical refrigeration, sales and earnings have been severely depressed and since no offset to this long-term downturn is in sight, the stock lacks appeal. A buyer would merely purchase a share in the assets, of uncertain liquidating value, without any prospect of price enhancement.

A more promising candidate for speculative investment is City Stores, selling at 9 $\frac{1}{2}$ against book value of \$13.05 per share. Valuation of the common fails to equal working capital, and common plus funded debt together do not bulk excessively in relation to net tangible assets. No dividends have been paid in the past which enabled the company to build up working capital and reduce substantially outstanding debt. Because of the still sizable obligations outstanding, future dividends at best would remain small, however. The current price to some extent discounts the beneficial effect from improved cost control and store rehabilitation. Thus despite the

statistical under-valuation, future appreciation prospects can be regarded as no more than average.

Federal Motor Truck, selling at about 8 $\frac{5}{8}$ or only a trifle above book value of \$8.22 per share, on a statistical basis represents a fairly full commitment despite indications of fair earning power after the war. Its current business, of course, cannot be compared with normal volume prospects which after the war are at least open to some question. The current price, it seems, reflects the more immediate earnings outlook rather than longer term potentials. On the whole, the price risk can be said to be about average.

Statistically, Beech Aircraft, like most aircraft equities, has a good deal of attraction. The common currently sells around 8 $\frac{5}{8}$ compared with book value of \$17.55 and even in relation to pre-war sales (maximum), the stock appears moderately priced. Total valuation of common is about half of net tangible assets, and the uncertain post-war prospects of the aircraft industry appear adequately discounted by the current market price. Working capital is more than adequate for the expected sharply reduced post-war business. The company which had a good start before the war and can point to an outstanding production record, expects to continue in the field, concentrating on personal type airplanes in the \$2,000 to \$3,000 price field. Moderately capitalized, the company should be able to make money though future earning power will nowhere approach current war-swollen profits, and intense competition from larger units in the industry must be reckoned with. As a radical speculation, the stock has certainly

	Pittsb. Screw & Bolt	Kresge Dept. Stores	Mullins Mfg.	Norwalk Tire	Spear & Co.
Market price of stock.....	5 $\frac{3}{4}$	9	7 $\frac{1}{8}$	6 $\frac{1}{8}$	8 $\frac{1}{2}$
No. of shares outstanding.....	1,497,347	250,864	546,050	202,230	225,000
Total market value of common stock.....	\$8,609,745	\$2,257,776	\$3,890,606	\$1,238,659	\$1,912,500
Preferred stock at par.....	—	\$900,000	\$1,438,750(j)	\$438,200	\$3,725,000(k)
Preferred stock at market.....	—	\$792,000	\$2,417,100	\$407,526	\$2,477,125
Funded debt.....	None	None	None	None	\$369,750
Sales (1943).....	\$22,466,073	\$9,043,707	\$21,604,469	\$5,984,863	\$9,920,117
Net earnings (1943).....	\$1,146,506	\$214,454	\$751,001	\$162,166	\$121,102
For period of past eight years (pre-war):					
Maximum Sales.....	\$19,235,991	\$6,411,026	\$18,290,885	\$3,864,853	\$10,962,805
Maximum net earnings.....	\$1,252,698	\$289,474	\$924,331	\$180,593	\$1,016,337
Maximum net per share.....	\$0.84	\$0.79	\$1.32	\$0.74	\$3.58
Working capital.....	\$4,473,475	\$9,005,492	\$7,974,568	\$1,064,728	\$4,565,853
Net tangible assets.....	\$8,779,919	\$4,095,015	\$11,510,767	\$1,453,683	\$7,013,976

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a measure of attraction for the more venturesome. Hollansbee Steel, maker of forged steel products, appears moderately priced at $7\frac{1}{8}$ as against book value of \$28.61. Reorganization of the company in 1940 has led to improved operating results which should continue into the peace period though operations will be subject to considerable deflation when the war ends. However, as a result of fairly good war-time earnings, the financial position has been strengthened and working capital presently is almost twice the total valuation of the common stock. The latter amounts to only about one-sixth of net tangible assets, and total capitalization including preferred stock at par and the small funded debt outstanding is barely one-half of that item. From every statistical angle, the stock looks undervalued. The post-war sales outlook should be at least fair, presaging improved earning power though dividends may be some time off due to existence of \$8.75 arrears on the preferred stock. As a long term speculative investment, the stock at current price has attraction. As the result of the cancellation of Government contracts, the company has already started on its reconversion plans and post-war potentials especially during the immediate post-war years are judged fairly optimistically.

Robert Gair Co., leading maker of paperboard, box board and paper containers, has the makings of another promising speculative investment. The common sells around $4\frac{1}{4}$ compared with book value of \$5.46 per share. Total valuation of the common is about one-third of net tangible assets and exceeds working capital by 35%. While past earnings were erratic and dividends paid only since 1941, company's position improved considerably since the war and longer term outlook promises further gradual growth. The speculative character of the capitalization injects a strong element of leverage, in the past responsible for the unsatisfactory earnings record, which somewhat detracts from the stocks' longer term potentials; still the price risk at current levels should be no more than average.

Hat Corporation, at $8\frac{1}{2}$ looks statistically moderately priced with total market valuation of Class A and B stock not quite equalling working capital and amounting to about 75% of net tangible assets. Inclusion of the outstanding preferred stock somewhat modifies this picture but on the whole, the stock cannot be considered overpriced in relation to future potentials. Book value is \$6.05 per share. Working capital is large in relation to both assets and sales. On a qualitative basis, too, the stock appears an acceptable speculation despite relatively small pre-war earnings; dividends on the other hand were fairly generous in relation to profits. Post-war demand should hold up well with good business indicated for the immediate years after the conflict. Priced about five times best pre-war earnings, the stock over the longer term should have market potentials.

Mullins Manufacturing, selling at $7\frac{1}{8}$ compared with book value of \$6.01 per share, has attraction as a low-priced speculation. Total market valuation of the common amounts to about half of working capital and roughly one-third of net tangible assets. Total capitalization including preferred stock taken at the liquidating

value of \$3 million, is still well below working capital. The common valuation moreover compares favorably with pre-war sales and earnings, and the stock sells at barely six times best pre-war net. While pre-war sales were spotty and no dividends have been paid since 1936, the post-war outlook points to satisfactory results. Mullins' war experience in stamping and pressing is believed to open up an entire new field of operations, with stamped and coated metals expected to compete with plastics, particularly in kitchen appliances. The management optimistically expects post-war sales to compare favorably with war-time volume, last year amounting to \$21.6 million. Whatever the actual prospects, Mullins as an important supplier of consumer goods industries should do well after the war. In 1936, when earnings were 98c per share, the common reached a high of $19\frac{1}{2}$ but subsequently dropped to around 5 in the wake of several deficits. Both statistically and on basis of overall prospects, the common at current prices has market possibilities.

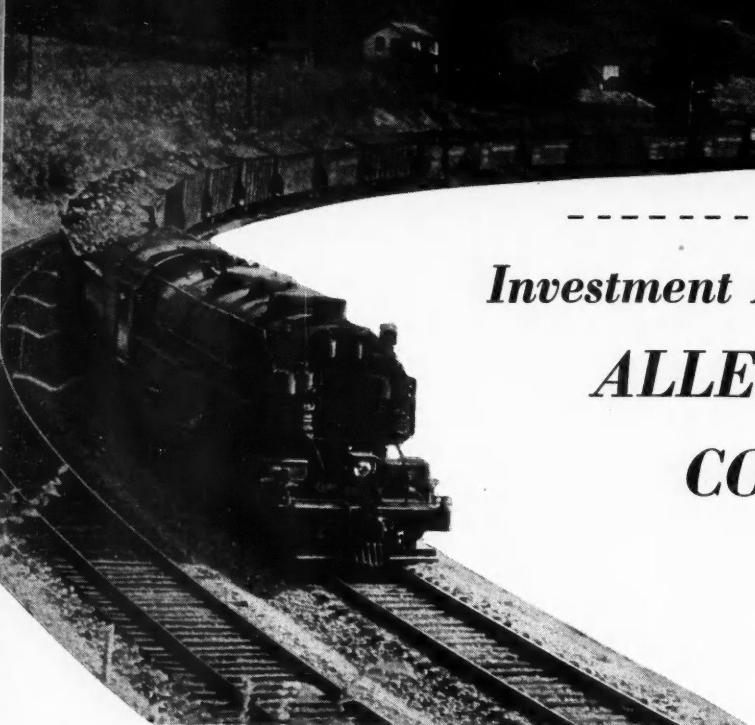
Hayes Industries, a relatively young concern organized in 1935 and engaged in the manufacture of automobile and aircraft parts and equipment, received a considerable fillip from war work, resulting in marked strengthening of the company's financial position. The forthcoming post-war boom in the automobile industry, together with the company's standing as a supplier of aircraft equipment point to favorable post-war development of business but this prospect appears at least partly discounted by the current market price of the common which sells at around $7\frac{1}{4}$ compared with book value of \$6.36 per share. Total valuation of the common is over double working capital and exceeds net tangible assets, hence the stock can hardly be called genuinely low-priced. Moreover, the valuation of the common appears high in relation to best pre-war sales. While the equity may not be without enhancement potentials, at present these appear adequately discounted marketwise.

Pittsburgh Screw & Bolt, selling at $5\frac{3}{4}$ compared with book value of \$5.86, does not look particularly impressive. Past earnings were relatively small and dividends irregular; in view of the competitive inroads into use of the company's products by welding, post-war prospects are not very encouraging from the investment standpoint. On a statistical basis, the stock is not overpriced, with the outlook picture probably militating against any undue rising tendency. Total valuation of the common issue about equals net tangible assets and is roughly double the working capital. Market possibilities of the common appear distinctly below average.

Kresge Department Stores at 9 appears adequately priced, especially in relation to past and current earnings, and thus represents no bargain at present market levels. Since prospects of marked earnings improvement after the war are at least open to question, the stock has below average merit both on a quantitative as well as qualitative basis.

Spear & Co., operating eight retail stores normally selling furniture, floor coverings, radios, refrigerators, stoves and other household goods, has been severely affected by war-time shortages (Please turn to page 364)

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Investment Audit of ALLEGHANY CORPORATION

BY ADOLPHE R. AUBERT

THIS corporation, organized in 1929 by the Van Sweringen interests, has correctly been described a "Railroad Dream." In conception the corporation was to have been a super holding company controlling a vast network of railroads from coast to coast.

Original investments at time of organization were in stocks of the Chesapeake Corporation (an intermediate holding company through which bulk of C & O holdings were acquired), Chesapeake & Ohio Railway Company, Nickel Plate, Erie, Buffalo, Rochester & Pittsburgh, Wheeling and Lake Erie, Missouri Pacific, Pere Marquette, Pittston Company, Lehigh Coal & Navigation, Kansas City Southern, and Great Northern. Many of these holdings—chiefly Buffalo, Rochester & Pittsburgh, Kansas City Southern, and Great Northern—were subsequently sold. In others, notably Missouri Pacific, there were huge bankruptcy losses.

No purpose would be served were we to examine the fortunes of this company since its inception, for recent developments, i.e., since January 1, 1944, have completely altered the status of the corporation. We shall therefore hurdle the intervening years and begin our study by analyzing Alleghany's portfolio as of December 31, 1943.

Even a cursory examination of Alleghany's capitalization discloses the leverage potentialities of the junior equity. Hence it occasioned little surprise in Wall St. when the management took advantage of the marked strength in rail securities early in 1944 to take measures towards ultimate elimination of debt and re-establishment of some value for the junior preferred as well as the common. The first step was taken in March 1944 when 704,121 shares of C & O were sold at 46 $\frac{3}{4}$ net, providing some \$32 million of funds for Alleghany. The C & O shares sold represented approximately 40% of Alleghany's then holdings. Second step towards ultimate re-establishment of equity values was taken in May. At that time, remaining \$40,798,000 of 5% bonds outstanding were called and \$30 million new 10-year Con-

vertible 3 $\frac{1}{4}$ % notes sold, thus effecting marked interest savings. The almost \$11 million difference was provided by the company's surplus Treasury cash. A \$9 million bank loan, carrying interest at only 1%, will apparently remain outstanding for the time being.

As a result of these developments, annual fixed charges of Alleghany will have been reduced from \$2.94 million in 1943 (peak charges \$3.94 million in 1932) to \$1.06 million, and at the same time its maturity problems (all three bond issues matured in 1944, 1949 and 1950) will have been resolved. Alleghany has placed itself in a position to become entirely free of debt. Indenture provisions of the new convertible notes provide that excess income from pledged collateral over and above interest requirements must be segregated in a Sinking Fund to retire bonds. Should C & O continue to pay only \$3 per share for the entire 10 year period (50c extra has been paid for last three years), approximately nine-tenths of the entire issue would be retired at maturity.

Additionally the possibility of accelerated retirement exists through the convertible feature. Were the current market to broaden perceptibly and rail equities parallel the current rise in railroad bonds, C & O stock might well advance above 50 and conversion induced. Were Alleghany bonds converted into C & O stock at 50, some 600,000 shares would be required for that purpose. Alleghany would then be left with 500,000 shares or slightly over 6% of total amount of C & O stock outstanding. For all intents and purposes Alleghany would still possess working control.

What are the values of Alleghany securities in the light of the changes described? In 1943 Alleghany had \$6,172,576 available for bond interest. Deducting therefrom from \$2,464,000 (loss of income from 704,000 shares of C & O sold) would provide Alleghany with \$3,708,000 available income (after taxes and expenses) to which should be added possibly \$500,000 income from its defaulted rail purchases in April and May, of some \$10

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million. Total income from 1944 and years immediately following would then be \$4,208,000, from which fixed charges of \$1,065,000 would be deducted, leaving \$3,143,000 available for the senior and junior preferred stocks. Bulk of this income would be segregated to retire the new 3 1/4% notes. Little or no income would be available to flow through to the 111,638 shares of \$2.50

Alleghany's portfolio would probably not enjoy a rise of \$80 million to overcome such a deficit.

Under the foregoing circumstances, what hope is there of establishing any equity for the junior preferred and the common? As we see it, now that Alleghany's debt has been reduced from original amount of \$85 million to \$39 million (\$30 million 3 1/4% notes plus \$9 million bank loans), the management must adopt a policy of gradually retiring both preferreds preferably through open market operations. This would seem in line with what might be construed as logical management policies, especially as the income flow will be limited by indenture provisions of the new Convertible 3 1/4% Notes. As a portion of its assets are liquidated, and as some income flows through to the Alleghany Corp., such funds may be used, moderately at first, and subsequently to an accelerated degree, as the company's debt retirement policy permits of greater cash availability for such purpose.

Prior to summing up the Alleghany picture and giving our ideas as to the value of the individual Alleghany issues, one more consideration should be mentioned. It is obvious from this study that C & O has been the keystone of the Alleghany investment arch. However, some breaches in the arch have already been made, 704,000 shares of C & O already having been sold, and 600,000 additional shares may conceivably be lost through ultimate conversion. Yet C & O will still remain an important asset in the Alleghany set-up with a minimum of 500,000 shares likely to be retained permanently.

Interest in greater income flowing through to C & O and thus ultimately to Alleghany is therefore great. More than any other single factor, therefore, Alleghany's need for larger earnings and larger dividends on C & O stock has accounted for persistent rumors of a merger of Nickel Plate, Pere Marquette, Wheeling & Lake Erie and possibly Pittsburg & West Virginia with C & O. Were such a merger effected, ultimate earnings on C & O might reach \$6 or \$8 a share, permitting dividends of between \$4 and \$6 a share and a possible market price of \$100 or more on C & O stock. Therein lies the greatest speculative possibilities to holders of Alleghany securities.

CAPITALIZATION	
Funded Debt	12/31/43
4% Bank Loan, due 6/1/44.....	\$15,446,123
Collateral Trust Convert. 5s/1949.....	21,661,000
Collateral Trust Convert. 5s/1950.....	
Fixed Int. Bonds.....	4,853,000
Contingent Int. Bonds.....	14,984,000
Total Debt.....	\$56,244,123
\$2.50 Conv. prior pfd (no par).....	111,638sh.
\$5.50 Cum. Series A pfd (\$100 par).....	667,539sh.
Common (\$1 par).....	4,522,597sh.

preferred (selling at 55, callable at 50, and on which \$23.125 arrears per share had accumulated as of December 31, 1943), and to the 667,539 shares cumulative preferred (selling at 29, callable at 105 and on which \$69.66 per share accumulations had accrued as of December 31, 1943).

From the foregoing it would seem that indenture provisions of the new 3 1/4% notes precludes any cash flow through to either preferred issue, let alone the junior equity. Value of these issues depends chiefly on future values of the company's assets. Fully recognizing this, when some 704,000 shares of C & O were disposed of in March, the management utilized \$10 million of funds obtained in its sale to purchase a miscellaneous representation of defaulted rails, primarily senior obligations of such carriers as the Chicago & Northwestern (both old and when issued), St. Paul, Rock Island, Denver & Rio Grande, Florida East Coast, Missouri Pacific, International Great Northern, New Orleans, Texas & Mexico, New Haven, Frisco and Seaboard. The management is stressing capital appreciation, since only through capital appreciation can any "daylight" ever be attained for the equity.

Market value of Alleghany's remaining assets as of this writing, eliminating 704,000 shares of C & O sold, is between \$80 million and \$90 million. After deducting \$39 million of debt and bank loans, \$49 to \$50 million will remain for both preferred stocks. The senior \$2.50 preferred is callable at 50 and there has accumulated arrears of \$23.125 (as of December 31, 1943). Some \$8.1 million would be needed to retire this stock if arrears were paid off and the company was forced to retire the issue at its call price. The junior \$5.50 preferred is callable at 105 and there has accumulated \$69.66 of arrears (as of December 31, 1943). \$113 million would be needed to retire this entire issue at its call price, plus full arrears. Yet there is available at this writing only \$30 to \$40 million remaining assets allocable to the junior preferred, which computation is equal roughly to between \$48 and \$60 per share (current market 29). Alleghany's portfolio would have to appreciate some \$80 million to cover the deficit of the junior preferred. This seems impossible of achievement, for were C & O stock to rise sharply, Alleghany would automatically lose 600,000 shares of its most valuable asset, C & O, and even were the Dow Jones Rail average to duplicate its rise of the 10s—from 65.52 in 1921 to 189.11 in 1929—total value of

INVESTMENTS, December 31, 1943			
	No. shares or Princ. Amt.	Cost	Indic. Mkt. Dec. 31, 1943
C & O Common.....	1,844,695	\$69,853,135	\$83,011,275
Pittston Co.:			
Cl. B pref cap stk.....	29,190 10/17	5,931,590	2,160,104
Common cap stk.....	248,120	4,354,326	2,543,230
Missouri Pacific:			
Preferred.....	44,100	6,029,785	
Common.....	497,900	39,605,464	
Conv. 5 1/4%, 1949.....	\$11,159,000	11,299,156	1,059,440
Lehigh C. & Navig. Common.....	25,146	1,300,642	210,598
Wheeling & L. E. 4% pr flen stk.....	54	5,805	4,860
Terminal shs 5 1/2% Notes.....	13,333,557	6,000,000	6,000,000
Unpledged			
U. S. Govt. secur.:			
Savings bonds.....	\$50,000	\$50,000	\$50,000
Treasury 3 1/2%.....	24,050	24,050	24,245
General Aircraft Corp. common.....	30,000	60,000	60,000
Missouri Pacific common.....	25,000	2,343,430	

The new 10-year convertible 3 1/4s are amply protected by a heavy Sinking Fund. If C & O dividends are maintained for the next decade at the 1943 rate, of \$3.50 per share (including extras) \$2,875,000 of the new notes would be retired in the first year, and only \$490,000 bonds would remain outstanding at maturity. Convertible option adds to the attractiveness of the issue. We consider these short term notes a splendid short term investment medium.

The senior \$2.50 convertible (Please turn to page 369)

Drug Companies Appraised For Income and Profit

BY STANLEY DEVLIN

BUSINESS in the medicine and proprietary products field has been very active and prosperous during the past few years. This has partly reflected the greater spending power of consumers, partly the Government buying of many of these items for the armed forces, and partly the cutting off of foreign competition on some items. Even some of the companies which formerly did a very large export business, which has been curtailed by the war, were able to show increasing total sales in the 1941-1943 period.

One of the factors which has produced a great increase in business has been the sale of vitamin products. A number of the companies described below are in this field. Some estimates place the total sales of vitamin products in the United States at near to \$200,000,000 a year at present. Some of the companies have been active in developing other newer products, such as sulpha drugs, while more recently there has been a new and very promising field in the making of penicillin, the "magic" curative mold which is so effective against many diseases.

Among the companies which have gone into the making of penicillin on an important scale are Bristol-Myers and E. R. Squibb. Further data on the activities of these two will be found below. At present, practically all of the available output of penicillin is taken for use of the armed forces. So much has been published as to what this substance will do to cure disease that it seems certain to be a big factor in the future plans of others in this line of business.

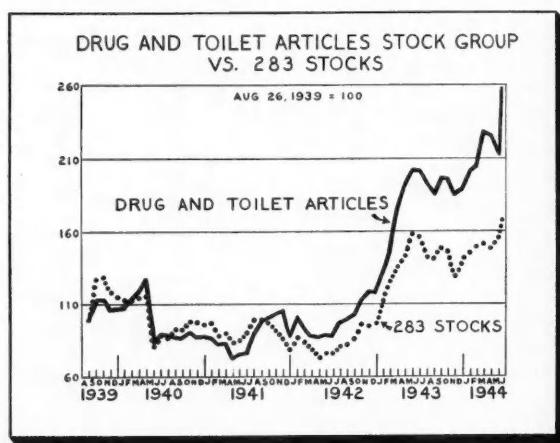
The post-war outlook for the drug, medicine, cosmetics, dentifrice and other lines covered by the companies described in this article, appears to be generally promising. As a whole, however, the stocks of these companies may have discounted much of their prospects. They have had rising markets for some time and several of them in the past few weeks have sold at the best levels in many years. On the other hand, there are a number of these stocks which are good dividend payers and still offer reasonably good yield.

As a whole, stocks in this classification have back of them a relatively small book value and net current asset values as compared with the market prices of the shares. They are valued on their earning power and dividend payments. Yet a number of

these companies have reported large earnings year after year, and some of them even went through the 1930-1932 depression with only a small falling off in their income. This largely reflected the widespread advertising of their products, resulting in continued good business at the time when almost disastrous declines were developing in many other industries.

Sterling Drug, Inc., known for many years as Sterling Products, is probably the best known company in this group. Its products have been sold in nearly all parts of the world. The most important is Bayer's Aspirin which was once controlled by the German drug cartels. This aspirin is now marketed by Sterling in many parts of South America and other countries, and is one of the largest sellers in this country in this field. Other important products of the company are Phillips Milk of Magnesia, Fletcher's Castoria, Cascarets, Danderine and Ironized Yeast. There are a number of other specialized items which are advertised in newspapers and on the radio. In recent years, Sterling Drug has developed markets in a number of vitamin products and this business is expected to expand. The company has built up a large trade around some of the more important home remedies, but it also has had a steady expansion through the acquisition of control of a dozen or more other companies in recent years. Total sales in 1943 were \$59,394,478, an increase of nearly \$6,000,000 over the year before. Expenses were nearly as much larger, while operating profit was only a little more than in 1942. Taxes in 1943, however, showed a material decrease from the previous year. The final net income of \$7,806,310 was \$720,000 above 1942. Per share earnings in 1943 were \$4.45, compared with \$4.05 the year before. These two years were smaller than any previous year since the early 1930s, and in a number of years earnings ran well over \$5, with the top figure at \$6.25 in 1939. Dividends in the past two years also were smaller than previously, with \$3.00 in 1940 and \$3.40 in 1942, while from \$3.80 to \$4.20 a share annually had been paid for a number of prior years. Sterling Drug has only one security outstanding, consisting of 1,750,666 shares of \$10 par value capital stock. Net assets value back of the stock are \$24,000,000, a share of which \$11.07 is in net current assets.

Colgate-Palmolive - Pe



company is principally known for its soap and soap powders, but it is also an important factor in the proprietary goods field, through its widely advertised tooth paste, toilet preparations, shaving soap and cream and similar items. Its best known soap is Palmolive ("What is the fourteen Day Palmolive Plan" is familiar to all radio listeners, and through magazine advertising). Colgate had gross business in 1943 of \$134,951,099, an increase of nearly \$16,000,000 over the year before. Operating costs were nearly \$12,000,000 larger but net operating profit was more than \$4,000,000 above the previous year. Taxes were about \$2,800,000 larger in 1943. The net on the common of \$6,065,696 was more than \$1,200,000 above 1942. Net equalled \$3.10 per share on the common stock against \$2.47 the year before. The 1943 earnings were better than for any previous year since 1929. Dividends were increased to \$1.50 a share last year, against \$1.25 in 1942. Colgate has no funded debt. The 125,000 shares of \$4.25 preferred stock of no par value is callable at \$101. The outstanding common is 1,962,807 shares, of

every year over a long period, American Home Products had shown earnings better than \$2.50 a share and in several, income had been well over \$5 a share. There has been a very long record of dividends. The 1943 rate was \$2.65. For a long period, payments have been made on a monthly basis of 20 cents a share, with occasional extras. The minimum dividends for any year in well over a decade was \$2.40 and the maximum in recent years was \$2.80. The December 31, 1943, balance sheet showed net current assets of \$26.71 a share, without deduction for the bonds which are ahead of the stock. After allowing for the bonds, the book value of the stock was \$20.85 a share. The outstanding bonds total \$14,250,125. There is only one class of stock with 946,886 shares at the end of 1943, par \$1. This has been increased somewhat so far this year.

United Drug, Inc., is a holding company for a number of manufacturers of medicines, toilet articles, stationery, druggists' supplies, rubber goods, candies and other items sold in drug stores. The total number of

STATISTICAL TABLE—DRUG AND PROPRIETORY COMPANIES.
Earnings Dividends

Name of Company	Annual Average 1942	Annual Average 1943	First half 1942	1936-1942	Price Range 1943-1944	Net Current Assets Per Sh. *	Recent Price				
	1942	1943	1942	1943	High Low High Low						
Abbott Laboratories.....	\$2.60	\$4.19	\$2.02	\$2.00	\$1.10	71 1/2	39 1/2	63 1/2	51 1/2	\$16.47	62 1/2
Amer. Home Products.....	4.70	5.75	2.58	2.65	1.20	66 1/4	30 1/4	74 1/2	53 1/2	26.71	74
Bristol-Myers.....	3.65	3.89	2.43	1.90	1.00	53 3/4	28	50	37 1/2	9.90	49 1/2
Chesebrough Mfg.....	6.71	7.82	6.28	5.50	2.50	130	70 1/4	116	80	32.17	113
Colgate-Palmolive-Peet.....	1.70	3.10	0.90	1.50	0.50	25 3/4	7 1/8	29 5/8	16 1/2	14.65	29
Coty, Inc.....	0.56	0.65	0.35	0.30	0.15	10 1/4	2 1/2	6 1/8	27 1/8	3.92	6
Lambert Co.....	1.87	2.93	1.64	2.00	0.75	26 3/4	8 1/2	29 3/4	17 5/8	7.75	29 1/2
Lehn & Fink Products.....	1.43	3.22	1.39	1.40	0.70	21 1/4	6 7/8	22 7/8	14 3/8	7.26	21 1/2
McKesson & Robbins.....	1.75	3.15	0.31	1.15	0.65	15 1/4	9 1/4	25 3/5	14 1/2	31.55	24
Mead, Johnson.....	9.56	11.38	6.57	6.25	3.25	170 3/4	79 3/4	160	125	32.91	160
Norwich Pharmacal.....	1.00	1.12	0.98	0.60	0.30	23	7 1/2	16	8 5/8	3.33	13 1/2
Parke, Davis.....	1.73	1.61	1.65	1.30	0.60	50 3/8	19 1/2	32	27 1/8	4.57	30
Plough, Inc.....	0.99	1.41	0.77	0.60	0.30	20 1/8	6	17	8 1/2	10.59	15 1/2
Sharp & Dohme.....	0.62	1.67	0.09	0.50	0.25	14	3	16 1/4	8 5/8	4.31	13 1/2
E. R. Squibb & Sons.....	3.39	4.92	1.18	2.00	1.00	51 1/2	22	70	49	37.03	60
Sterling Drug.....	5.03	4.45	3.57	3.00	1.50	80 3/4	42	67 3/4	58 1/2	11.07	67
United Drug.....	1.22	2.38	0.18	—	—	16 1/2	2 7/8	15 1/8	7 5/8	24.22	16
Vick Chemical.....	4.00	3.37	2.80	2.00	1.00	49 1/2	30	47	40 1/8	11.53	45
Zonite Products.....	0.16	0.62	0.04	0.30	—	9 3/8	1 1/2	6 1/2	2	1.67	6

J—Year to June 30.

*On common, without deduction for prior securities.

par value. The common had a book value of \$22.21 share at the end of 1943. The current position was strong, with net current assets of \$48,387,090, equal to \$24.65 a share on the common, without making a deduction for the preferred stock.

American Home Products Corporation has acquired a large number of other companies through exchange of stock for that of the ones acquired, or through purchase of the assets for cash. A number of its pharmaceutical, medicinal and cosmetic products also wax and wanes rapidly, have been widely advertised. Kolynos tooth paste is among the most widely advertised, also BiSoDol, a share of Johnson's Floor Wax, Anacin and Three-in-One Oil. It paid for a number of baby foods and also has been expanding its activities in vitamin products. There are also a large number of home remedies in its long list of products. The company had \$84,667,986 gross in 1943, an increase of nearly \$25,000,000 over the previous year, but expenses were \$20,500,000 larger and taxes almost \$2,000,000 above the 1942 total, with the result that net available for dividends of \$5,439,191 (before special reserves) was only \$1,100,000 above 1942. Net per share in 1943 was \$5.75 a share (before deducting 58 cents a share for post-war reserves) against \$4.88 in 1942. For

separate things made and distributed runs into many hundreds, with over 300 of them trade-marked. The company operates the Rexall Stores, located in the United States and several foreign countries. There are over 500 of these stores in the United States and about 50 in Canada. United Drug has had large earnings for years, but has not paid any dividends on its capital stock since 1937. The 1943 gross was the second largest of any company in this group, being \$138,913,407, an increase of nearly \$17,000,000 over the previous year. Net earnings (before special reserves) were \$2.38 in 1943 against \$2.29 in 1942 and \$2.09 in 1941. The consolidated balance sheet at the end of 1943 showed subsidiary funded debt of \$19,333,000. The United Drug securities are 100,000 shares of no par \$4.75 preferred stock and 1,351,584 shares of \$5 par common. The net current assets as based only on the common without allowance for the senior securities amounted to \$24.22 a share. The book value of the common was \$13.63 a share.

Bristol-Myers Company was once a part of Drug, Inc., out of which also came United Drug. Bristol-Myers has a number of widely advertised products, several of which sponsor radio programs, such as Ipana tooth paste, Sal Hepatica, Mum, Vitalis and Minut Rub. Among a num-

ber of other products are shaving brushes (it also makes a brushless cream) and vitamin products. Net sales in 1943 were \$28,689,558. Earnings have been large for the entire period since this company started independent operation in 1933, and have been above \$3 a share each year starting in 1935. The 1943 net was \$3.89 a share against \$4.09 in 1942. Dividends were \$2.40 to \$2.60 a share each year until 1942, when \$1.90 was paid, and the same amount was disbursed in 1943. The company has only one class of security consisting of 667,251 shares of \$5 par capital stock. At the end of 1943, net current assets were \$9.90 a share.

Lambert Company was a big factor in the stock market in the 1920s with earnings above \$10 a share in some years, dividends of \$7 to \$8 in many years, and with the stock making a 1929 high of 157 1/4. The company at one time had only one important product, Listerine, but has added a number of others including tooth paste, cough-drops, shaving cream and Pro-phy-lac-tic brushes. Its subsidiary, the Pro-phy-lac-tic Brush Co. has developed some important plastic products. Earnings and dividends of good size were maintained by this company during the 1930-1932 depression and there were sizeable earnings in every year in the 1930s, with the smallest at \$1.54 a share in 1937. The income has increased in the past three years, having been \$2.08 a share in 1941, \$2.80 in 1942 and \$2.93 in 1943. The smallest dividend for any year in a long period was \$1.50 a share, which was the rate from 1938 through 1942. In 1943, payments were \$2.00. Lambert has only one class of security, with 746,371 shares of no par value capital stock. Net current assets total \$7.75 a share.

McKesson & Robbins, Inc., went through vicissitudes a few years ago that resulted in reorganization, but it has come out in strong condition. It is a large manufacturer and distributor of drugs, cosmetics and special products and is also one of the larger distributors of liquors. It acquired working control of two distilling companies, which are now engaged in making alcohol for the Government. McKesson is also agent for a number of foreign wines and liquors and distributes them in this country. McKesson had by far the largest gross of any of these companies, doing \$242,496,294 total business in the year to June 30, 1943, an increase of nearly \$140,000,000 over the year before, but even with great increases in expenses, its operating net of \$16,168,699 in the 1943 fiscal year was almost \$11,000,000 over the previous year. Net earnings in the 1943 fiscal year was \$3.15 a share before special reserves. In the first half of the fiscal year to June 30, 1944, net income was \$1.51 a share. Dividends in 1943 were \$1.15 a share against \$1.00 the previous year. The company has \$12,131,000 bonds, 150,000 shares of no par \$4 preferred and 1,682,726 shares of common stock, par \$18. Net current assets as figured solely on the common without allowance for prior securities was \$31.55 a share.

Parke, Davis & Company has had a long record of fair earnings and dividends. It is the maker of a number of medicines, pharmaceuticals, biological products and

special items used by druggists and doctors. Its markets were world-wide before the war. Earnings have been in a narrow field for a long period of years, ranging from \$1.39 a share to \$1.89. The 1943 net was \$1.61 and \$1.30 was paid in dividends. Gross of the company in 1943 was \$49,841,377. There is only one class of security, consisting of 4,896,780 shares of no par value.

E. R. Squibb & Sons was formed in 1905 as successor to a business established in 1858. It is a producer of a vast number of separate items which includes dentifrices, medicines, biological products, vitamins, chemicals, drugs, serums, fish liver oils, castor oil, sulpha drugs, antitoxins, cosmetics, perfumes and tubes. Earnings have increased in recent years and were above \$3.50 a share annually each year starting in 1939. The 1943 net was \$4.92 a share against \$5.37 in 1942. Gross in 1943 was \$42,432,472, an increase of nearly \$9,500,000 over the year before. Dividends on the common in 1943 was \$2.00 a share, with \$2.12 1/2 in 1942. The company has \$4,250,000 funded debt, 56,992 shares of \$5 no par preferred, 42,868 shares of \$4.25 no par preferred and 495,606 shares of no par common.

Vick Chemical Company's leading products are widely advertised, being Vick's Vapo-rub, Va-tro-nol, Vick's Cough Drops, and several others. Before the war, its Vaporub was sold in more than 70 foreign countries. Through subsidiaries, the company also makes toilet articles, vitamins and cosmetics. The company has had a very long record of good earnings and with few exceptions, these have been above \$3 a share annually and often over \$4. The 1943 gross business was the largest in the company's history, being \$28,318,036, for the year to June 30, an increase of almost \$10,000,000 over the previous year. The report for the fiscal year to June 30, 1944, is expected to show larger gross and net. For the six months to December 31, 1943, net was \$2.75 a share. In the 1943 fiscal year, it was \$3.37 a share for the full year. Dividends have been above \$2 a share annually, with few exceptions, for a long period before 1943, but in that year only \$2 was paid. The company has only one class of capital stock, with 681,180 shares of \$5 par value.

Sharp & Dohme, Inc., had small earnings prior to 1941, but has shown a good increase during the past three years. The company is nearly entirely in the drug and biological field, but makes a large number of different products. Gross business in 1943 was \$27,180,693. The net increase was \$1.67 a share against \$1.86 in 1942. The dividend rate on the common is now 50 cents a share. The company has \$200,000 funded debt, 229,080 no par \$3.50 preferred and 776,627 shares of no par common.

Plough, Inc., is another company whose name is known to many radio listeners through advertising such products as St. Joseph aspirin, Penetro products, etc. It makes a wide variety of drugs, household remedies, spices, cosmetics, and shoe cleaners. The 1943 earnings were \$1.41 a share compared with \$1.34 the previous year. There had been an average of about \$1 a share net income for the ten preceding (Please turn to page 36)



Winthrop Chemical Photo
Bottling drugs under strict sterile conditions

Two "Special Situations"...

AMERICAN CHAIN and WAYNE PUMP TO BENEFIT FROM PEACE

BY WARREN BEECHER

FILLING station equipment, while not under the heavy usage of the pre-war period, is doubtless suffering the usual deterioration due to weather, plus neglect resulting from the manpower shortage. Replacement demand after the war should prove substantial. *Wayne Pump* is the largest maker of filling station equipment, and owns important patents which are licensed to other producers on a royalty basis.

The company was incorporated in 1928, acquiring the assets of other companies. It developed and manufactured self-measuring gasoline pumps, kerosene and oil-dispensing pumps, bulk meters, pipeline meters, power pumps, tanks, air compressors, car washers, mechanical hoists for automobiles, etc. A worldwide business was built up with plants in Fort Wayne, Indiana, Delta, Ohio, Los Angeles, Toronto, London and Rio de Janeiro; warehouses are maintained in 18 U. S. cities. At present, of course, the company is producing munitions, about 93% of the total output last year being for military uses, direct or indirect. Normally the company produces over one-quarter of the gasoline pumps made in this country. Ten other companies have been licensed under the Wayne patents for the cost-computing pump, though the gross royalties of about \$4 a pump are not a very substantial part of revenues.

This pump proved the company's salvation when introduced in 1933. The company had had "rough going" during the early stages of the depression, like some other motor and accessory companies, and was forced to reorganize under 77-B proceedings in 1934. Initial sales of the popular new pump greatly expanded the company's business, which more than doubled in the two fiscal years ended November 30, 1937. The stock, which could have been bought for 11/4 in 1933 (after adjustment of price for the 1-for-5 exchange in reorganization) advanced to above 50 in 1937, a level it has been unable to re-attain since that year, however.

Share earnings jumped to \$5.65 in that year but have declined steadily (with the exception of 1941) to last year's \$2.80 per share. Meanwhile, however, the company has substantially improved its balance sheet position. The new debentures issued in reorganization were retired in 1936, along with the preferred stock of a subsidiary. The parent company's sole capitalization now consists of 289,

659 shares of common stock. Book value has increased from \$13.94 in 1936 to \$21.77, in 1943 and of the latter amount nearly \$15 was in net working capital. The two active foreign companies—British and Brazilian—are not consolidated in the parent company's statements, and while dividends from these subsidiaries contributed nearly 11% of 1941-42 earnings, the investment is carried at a negligible amount in the balance sheet. The parent company equity in 1943 was indicated to be worth about \$800,000, or about \$2.78 a share.

The stock is currently selling at 28½ (a new high since 1939) to yield 7% based on the \$2 dividend (paid over the past 5 years). This price is about 10 times earnings, which have been steady around \$2.80 in the past two years and are expected to maintain that level in the current fiscal year, after allowance for renegotiation, etc. The company is fortunate in having a large excess profits tax exemption. Sales of war equipment have been only moderately higher than the regular pre-war volume, hence the company does not face any special post-war reconversion problems. Cash items last year were 43% of all assets. Thus while the stock is not selling at a low ratio to earnings, as are many of the "war" stocks, this fact seems outweighed by its prospects as a "peace" company and by the conservative setup described above.

American Chain & Cable's business is more diversified than that of Wayne Pump. It is the largest U. S. producer of chains, third largest in wire ropes, cables and valves, and probably the second biggest maker of chain-length wire fences. It owns basic patents on "pre-formed" wire rope and cable (noted for strength and durability) and obtains royalties from other producers. Pre-formed cable is heavily used for aircraft cable controls, motor vehicle brakes, etc. The company is best known perhaps for the "WEED" tire chain, marketed throughout the world to automobile owners to avoid skidding on wintry pavements.

The company's products are sold to a large number of industries—automotive, agricultural, mining, oil, building, marine, railroad, aviation, etc. Sales are largely made through distributors. There are sixteen U. S. plants and subsidiaries in Canada and England. Practically all the company's products are now in demand for military purposes, 1943 sales (Please turn to page 364)

Year	Wayne Pump			American Chain*		
	Earned per share	Div. Paid	Approx. Range	Earned per share	Div. Paid	Approx. Range
1943.....	\$2.80	\$2.00	26-18	\$3.33	\$2.00	25-18
1942.....	2.82	2.00	18-12	3.40	2.00	21-16
1941.....	3.46	2.00	20-10	3.55	2.00	23-17
1940.....	3.18	2.00	24-14	2.76	2.00	24-14
1939.....	3.23	1.50	33-20	1.99	1.00	26-14
1938.....	3.68	2.50	34-17	.56	.70	24-10
1937.....	5.65	3.00	51-20	2.79	1.83	34-11
1936.....	4.58	—	38-19	3.15	1.33	26-10
1935.....	2.38	—	22-12	1.46	—	11-3
1934.....	D .13	—	—	D .14	—	4-1½
1933.....	D1.45	—	—	D1.51	—	5-1½
1932.....	D .81	—	—	D4.80	—	2½-5½

*Figures adjusted for 3-for-1 split-up in 1937.

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FOR PROFIT AND INCOME

Discounting the Future

Buyers of automobile stocks at current prices sure seem to be looking a goodly distance ahead. Production of cars for civilians may be resumed in a matter of several months, but only on a limited scale and therefore not too good so far as profits are concerned. It would seem optimistic to expect the first year of full output before 1946. When it comes, the excess profits tax may or may not still be effective. For an idea how far the automobile stocks have travelled toward peace, see the table below. It suggests that the highest-price stock in the group, Chrysler, is probably the least overbulled on the basis of reasonably indicated peace-time earnings potentials.

The More, The Merrier

From an investment point of view, the trouble with new fields of business endeavor is that everybody and his brother jump into them, if marketing prospects look promising. Take home freezer cabinets for the quick-freezing and storage of foods. Demand prospect appears highly promising. So a number of manu-

facturers "have plans." The most recent to announce it will get in is Westinghouse Electric, as should not be surprising. What we want to know is: What manufacturer will be first to offer a combination refrigerator and food freezer, the whole thing small enough so the house won't have to be rebuilt to hold it? That's a tall order.

Big Refunding Plan

The Louisville & Nashville is a strong railroad and is getting stronger, though it is by no means yet in the credit class of the most elite, such as Norfolk & Western, Union Pacific and C. & O. It is now working on a plan to refund at a $3\frac{3}{4}$ per cent coupon rate bond issues totaling \$54,000,000. On \$14,000,000 of this debt, present coupon rate is 5 per cent; on \$31,000,000 it is $4\frac{1}{2}$ per cent; and on the remainder it is 4 per cent.

Money-Maker

Spicer Manufacturing Company has long been one of the most consistent money-makers in the automobile accessory field. Recent report for the nine months ended May

31 showed that steady earnings are being maintained at a high rate—\$5.37 a share against \$5.59 for the comparable previous period. Thus, full-year earnings probably will be somewhere around \$7 a share. However, best pre-war net was \$4.26 a share in 1936. Even so, paying \$3 dividend and selling around 43, this good quality issue is more conservatively priced than many in the automotive field.

Shattuck Expansion

Shattuck (Schrafft's restaurants, soda fountains, candy and baked goods) plans a \$7,000,000 post-war expansion program. Highlights include "invasion" of the restaurant business in various other large or sizable cities and entrance into the roadside restaurant and refreshment field. People either swear by Schrafft restaurant menus—or swear at them (alleging small portions and limited selection). Enough swear by Schrafft to support a big and growing business. But this has been a growth company in volume more than in dividends to shareholders. True, the latter got \$1 a share last year, best in a long time—but the longer-term dividend record has been nothing to enthuse about.

Peace Stock

International Telephone recently sold up to $19\frac{1}{2}$, which compares with 1942 low of $1\frac{1}{2}$. This stock attracts speculative demand because earnings are improving and because it will benefit from world peace. But the prospect is not one that can be "analyzed" on statistics. You have to take it, or not take it, pretty much on faith—which may be one reason that invites speculators. Despite profit improvement, present price is not low on per share earnings.

THE HIGH-FLYING AUTOMOBILE STOCKS

	1943 Net Per Sh.	Highest Pre-War Earnings	Price- Ratio(A)	Price- Ratio(B)	1942 Low	Recent Price	1937 High
General Motors....	\$3.19	\$5.35	20.3	12.1	30	65	$70\frac{1}{2}$
Chrysler.....	5.36	14.25	18.1	6.8	$43\frac{1}{2}$	97	$135\frac{1}{4}$
Studebaker.....	1.93	1.31	15.4	14.5	$3\frac{3}{4}$	19	20
Hudson.....	1.03	2.14	13.8	7.1	$3\frac{1}{8}$	$15\frac{1}{4}$	$23\frac{1}{4}$
Nash-Kelvinator....	.96(C)	.85	17.7	20.0	$3\frac{3}{8}$	$16\frac{7}{8}$	$24\frac{5}{8}$
Packard.....	.39	.47	18.7	12.8	$1\frac{7}{8}$	6	$12\frac{3}{8}$
Willys-Overland....	1.33(C)	.14	12.7	121.0	$1\frac{3}{8}$	17	$5\frac{1}{2}$

*Back to 1935.

(A) Recent price times 1943 net per share.

(B) Recent price times highest pre-war net per share.

(C) Year ended Sept. 30.

Keeping Abreast of Industrial and Company Changes

Declining Backlogs

Though there are individual exceptions, the general situation in industry is one of slackening flow of new orders and gradual, slow shrinkage in backlogs. Shifts in military procurement don't seem to change matters for long, since acceleration at one point is offset by slowing down elsewhere. Thus, for a few weeks, the increased emphasis on heavy artillery and related items brought a sharp rebound in capital goods new orders but the latter index more recently has sagged again and is unquestionably in an irregular down trend. Since the invasion, tank production schedules have been revised upward but by how much is unstated; and in any event this will hardly change the general industrial outlook. Even with continuing war, the production index (247 at high) is expected to creep down to at least 230 by the year-end and would drop more sharply in the final quarter should German defeat come late this summer.

Behind The Market

When speculations reaches the boiling phase — as has been the case recently, especially in many low-price stocks — analysts spend a lot of time looking for "situations" that are "behind the market". Thus, it is frequently said at the moment that either automotive stocks are too high or steels are too low. On this (bullish) reasoning, steels would seem a buy. Perhaps so — but there is another alternative as regards relative market patterns. There could be a general reaction, in which automotive stocks go down more than steels; thus narrowing the spread in price levels of these two groups. This is not a prediction. Just a note of caution. This column gets leery when we hear numerous tips of the variety now going the rounds: the common theme in many cases being "this stock ought to go up because look how high that other stock is."

Exception

One exception to the above-stated general rule of decline in new orders is Westinghouse Electric & Manufacturing Company. For the first five months of this year, volume booked was \$384,769,328, comparing with \$360,674,274 a year ago. The reason: certain new types of weapons developed by the company in cooperation with the armed services. Naturally, the details are secret — but A. W. Robertson, Westinghouse chairman, says these new weapons "are powerful and effective beyond anything of their kind heretofore invented." Look out, Hitler.

SOME LEADERS OF THE MARKET RISE

	1943	Recent
	High	High
Allied Stores	16½	29½
Amerada	86½	103
Bigelow-Sanford	40	48½
Briggs Mfg.	30½	38
Chrysler	85¾	98½
Col. Broadcasting	26¾	33¼
Del. & Hudson	17¾	34½
Doehler Die Casting	34	44½
Eng. Public Service	9½	13¾
General Motor	56	65½
Gillette Saf. Razor	9¼	13¾
Goodrich	45¾	54½
Gulf, Mobile & Ohio	10½	16½
Hudson Motor	11½	16½
Pacific Mills	28¾	41½
Philco	26½	35½
Spiegel, Inc.	8¼	10½
Studebaker	15¾	19½
White Motor	22¾	28

Another Miracle

The production job done in a relatively few months time by the various large drug and chemical companies making the wonder-drug penicillin ranks high among the industrial miracles wrought in this war. From the infancy phase represented by bottles in laboratories,

pencillin production is now typified by three-story-tall tanks. Formerly available only for the war wounded, this God-send of a remedy for many ailments is now ready for the public. So many scientists, engineers and corporations share the credit for the production achievement that all could not be cited here, while to cite any single one would be injustice to the rest.

Prize-Winner

It seems that the rich get richer. The State of Florida some time ago offered a \$50,000 prize to whoever would develop the first "commercial" oil well in said state, commercial meaning a well producing commercially-practicable quantities of oil. The winner is Humble Oil, which doesn't need to make money that way. So it is going to donate the fund 50-50 to the University of Florida and the Florida State College for Women for use to finance deserving students.

Sears Catalog

The Sears, Roebuck fall and winter catalog is always interesting reading, since it mirrors so much of the American industrial and commercial scene. It went into the mails last week. Detailed review would take a long article. Some of the highlights: Large sections on textiles had to be marked "not available" after the catalog was printed, especially damask yard goods, upholstery fabrics and trimmings; sheets and sheeting were not listed; textiles for home dressmakers were limited to wools, rayon, and wool and rayon mixtures; coil springs reappeared in some furniture; color reproductions of famous oil paintings are featured at prices from \$4.79 to \$19.50; there were 16 pages on books and the Sears Book Club; for \$6.95 you can buy a plastic bugle, made to Army specifications, if for some strange reason you want one.

Refunding

Taking advantage of low interest rates — which have been with us for a long time and which will be here for some time to come — and of improved earnings and financial positions — which represents more of a change than the money market factors — a large amount of corporate financing is in the offing. Much of it will come in the period between the present Fifth War Loan and the Sixth War Loan scheduled for next autumn. The total amount is estimated at around \$1,000,000,000. More than half will be by utilities, more than a fourth by railroads. Very little of the financing will be "new money". The big idea is to reduce debt carrying charges.

Allied Stores

We see by the papers that supply of "soft goods" is going to get quite tight from here on. That may prove right — but we have been hearing about the "bedrock civilian economy" for a long time now and it keeps receding into a more distant future; at least that has been so heretofore. Merchants seem to show a stubborn and successful persistence in finding enough goods to sell. For instance, Allied Stores did \$49,591,000 worth of business in the three months ended April 30, against \$44,926,000 a year before. Not so bad. And despite increased costs and taxes, profit was steady at 73 cents a share on the common, compared with 75 cents a year ago.

Diesel Power

In one respect bankruptcy is a good thing for railroads — but not for the security owners. Trustees will junk old equipment and spend funds to buy the most modern rolling stock with a "progressiveness" — not to say boldness — that managers of solvent roads can not match for obvious reasons. A case in point is Ontario & Western. It is going to spend \$6,700,000 for Diesel-electric locomotives — 37 of them — and will become the first Class I road to operate nothing but Diesel engines.

Company Notes

American Can expects a sizable gain this year over 1943 sales of \$191 millions, but profits will be about the same as a year ago . . . General Motors' Pontiac division expects to spend \$35 millions on facilities and turn out 500,000 civilian cars in the first year of unrestricted production . . . American Chicle will show first half-year earnings approximating \$3.64 reported a year ago . . . Artloom Corp. has called entire issue of 7 per cent preferred shares for redemption as of next September 1 . . . Sinclair Oil is expediting plans to build a refinery in Venezuela with capacity of 35,000 barrels daily . . . Colt's Patent Fire Arms last week got a sudden notice that the Army has cut back orders for 50 calibre machine guns by 40 per cent., which lets

out 3,000 employees after July 5 . . . Fajardo Sugar is expected to show something less than \$2 a share earned for fiscal year ending July 31, against \$2.78 the year before . . . Bendix Aviation thinks it will do well to have sales of \$180 to \$190 million in good post-war years, against around \$1,000,000,000 a year now . . . General Baking net for the first half year is expected to be a bit under a year ago when the figure was 32 cents a share . . . Union Pacific will issue \$8,120,000 of equipment, mainly locomotives of the most modern types . . . New Haven Railroad's net income for May amounted to \$1,958,491, a decrease of \$516,179 from a year ago.

Rail Revenues

Railroad operating revenue for May is estimated to have been a fraction more than 5 per cent greater than a year ago, with freight revenue up 4.4 per cent, passenger revenue up 10.3 per cent. Troop movements by rail apparently have yet to make their peak. These are topsy-turvy days. Instead of begging people to ride the trains, the railroads are begging civilians to stay home! It'll be different in due time, after the war. Then passengers will not be standing in aisles or bulging out the windows. They will be more than welcome. They will be so wanted that the railroads will coddle them like babies. Meanwhile, increase in gross revenue over a year ago does not mean increased net income. Operating expenses are way up. After taxes, rail net profits are running well under a year ago on the average.

Motor Mergers

In the wake of boiling speculation in the low-price motor stocks — perhaps we should say in formerly low-price motors — there are some nifty rumors going around on alleged possible mergers. These have had Willys-Overland "taking over" almost every other company — except General Motors. Superficially, there would seem to be some logic in the idea of a combination of two or more of the smaller "independents". However, a merger of two weak companies does not necessarily make a strong company. It might, if each has elements, or potential elements, of strength and if these are such that they can complement each other when combined.

SOME INTERESTING EARNINGS REPORTS

		Latest Period	Year Ago
Westinghouse Electric	5 mos. May 31	\$2.69	\$2.33
Great Northern	5 mos. May 31	1.77	1.80
Sperry Corp.	Yr. to Dec. 31	3.77	2.87
Collins & Aikman	3 mos. to May 27	0.71	0.56
Am. Fork & Hoe	Yr. to April 30	1.78	1.39
Chicago, Burl. & Quincy R. R.	5 mos. May 31	4.65	10.16
Norfolk & Western	5 mos. May 31	6.32	6.19
Southern Rwy.	5 mos. May 31	5.41	5.75
Illinois Central	5 mos. May 31	6.16	8.68
New York Central	5 mos. May 31	2.31	4.14
Spicer Mfg. Co.	9 mos. May 31	5.37	5.59
Kelsey-Hayes Wheel	9 mos. May 31	2.36	2.65
Bohm Aluminum	3 mos. March 31	1.86	1.84
Union Pacific	5 mos. May 31	5.39	9.15
U. S. Ind. Chemicals	Yr. to March 31	4.45	3.07
Detroit Edison	Yr. to May 31	1.44	1.33
U. S. Plywood	Yr. to April 30	2.83	2.91
U. S. Smelting	5 mos. to May 30	0.93	0.87
Allied Stores	Yr. to April 30	3.15	2.86
Caterpillar Tractor	Yr. to May 31	4.51	4.12

Opportunities For Income and Appreciation In Bonds and Preferred Stocks

BY JACKSON D. NORWOOD

MARKET TRENDS: The bond market has been fairly steady since the invasion of Normandy on June 6th with the largest loss shown in second grade rails. Good to high grade bonds were not affected. Investment markets have been dominated by the Fifth War Loan Drive. One very obvious result of the invasion of Continental Europe has been the rise of Government bonds of occupied countries. Denmark 5½% 1955 are now selling at 81. This issue fell from 104 in 1938 to 18½ in 1940 but had recovered to 75 when the invasion of June 6th commenced. Norway 4s 1963, at the same time declined from 103¾ to 20 and now back to 96.

NEW YORK STOCK EXCHANGE RULING: Beginning with contracts on July 1, 1944 the New York Stock Exchange has ruled that the following bonds shall be dealt in "and interest" rather than "flat" as at present: Erie R.R. General Mortgage 4½% Income bonds due 2015; Gulf Mobile & Ohio R.R. General 5% Income bonds due 2015; Wabash R.R. General Mortgage 4% Income bonds due 1981; Wabash R.R. General Mortgage 4¼% Income bonds due 1991. Further addition to this list is expected later. Formerly, a holder of any of these contingent interest issues had to wait a year if he desired to receive the interest but now he can dispose of them at any time and receive the accrued interest thereon. Conversely, a buyer of same has to pay the market price plus the accrued interest.

SPIEGEL INC. \$4.50 PREFERRED STOCK: This company which until recently was a mail order house operating from Chicago, has entered the retail store field and expects to operate as a five store plan calling for organization of the present mail order catalogue business into the following divisions: (A) Women's Section, (B) Men's Store, (C) Children's Store, (D) Home Furnishing, (E) Farm Section. Retail stores in all these divisions are planned and the company recently purchased the Sally chain stores which operated 46 stores in 14 different states. While the company operated at a loss in 1943, earnings from now on are expected to show considerable improvement. May sales showed an increase of 128.6% as compared with the same months in 1943.

The company has maintained a very strong financial position and as of December 31, 1943, showed total current assets of \$18,958,175 as compared with total current liabilities of \$2,203,809, a current ratio of better than 8 to 1. Cash amounted to \$5,165,021 and U. S. Government securities \$630,653. These figures, alone, were 2.6 times current liabilities. The company has no funded debt and paid off \$5,000,000 of notes in 1943. Net current assets at the end

of the year were equivalent to \$167.54 per share on the outstanding 100,000 shares of no par value \$4.50 preferred stock. Cash and Government securities were equivalent to \$57.96 per share of preferred. The equity junior to the preferred stock is represented by 1,276,000 shares of common stock selling around 10 with a total market value of \$12,076,000. This is equivalent to \$127.60 per share of preferred. The preferred stock is redeemable at \$105 to March 15, 1947, and thereafter at 102½. It is convertible into 2½ shares of common stock through March 15, 1947, when the privilege expires. Based on the current dividend rate of \$4.50 and the current market price of 66, the indicated income yield is 6.8%. Dividends have been paid regularly on the preferred stock since its issuance. The preferred stock, while speculative, gives an excellent income yield and has good possibilities of enhancement in market value.

PEOPLES GAS LIGHT & COAL: This company recently sold \$20,000,000 first and Refunding 3% Bonds due 1961 to a group of insurance companies. Proceeds of the sale, together with other corporate funds, will be deposited with a trustee of the non-callable refunding 5s to provide for their retirement on or before the maturity date, September 1st, 1947. The company will purchase the refunding 5s, at any time up to September 1st, this year, at a premium of \$118.00 per \$1000 bond, together with interest to September 1st. This premium is the equivalent of a net yield basis of approximately 1%. This column advises acceptance of the aforesaid offer.

BRAZIL BONDS: The United States of Brazil, the first Latin American nation to effect a debt adjustment plan covering all its outstanding dollar bonds, representing 90 issues aggregating \$286,065,645 and comprising federal, state and municipals, offer the choice of retaining their bonds at reduced rates or of accepting smaller amounts of new 3¾ per cent bonds upon (Please turn to page 372)

Recent redemption of Bonds and Preferred Stocks:

Bonds:	Amount Called	Call Price	Redemption Date
*Alleghany Corp. Conv. 5% June 1, 1949...	Entire issue	102½	Aug. 9
*Alleghany Corp. Income 5% April 1, 1950...	Entire issue	102½	Aug. 9
Otis Steel Co. 1st "A" 4½% 1962...	Entire issue	104	July 15
Dominion Tar & Chemical Co. 4½% "A" 1951	Entire issue	102	Aug. 1
Pennsylvania Co. Secured 4% 1963...	Entire issue	106	Aug. 1
International Rys. of Central America 6½% 1947.....	\$1,500,000	100	Aug. 1

*This issue may be converted (1) until and including Aug. 9, 1944 into preferred stock and common stock of the Corporation, as provided in the indenture; (2) into common stock as provided in its plan of reorganization. Conversion privilege on the 5s 1949 expired June 1, 1944.

Preferred Stocks:	Amount	Call Price	Date
City Ice & Fuel Co. \$6.50 Preferred.....	Entire issue	105	Sept. 1
Diamond Shoe Corp. \$5.00 Preferred.....	Entire issue	106.25	July 1
*Beatrice Creamery Co. \$4.25 Preferred.....	½ of issue	105.50	Aug. 1
Artloom Corp. \$7.00 Preferred.....	Entire issue	115	Sept. 1
Webster Eisenlohr \$7.00 Preferred.....	Entire issue	115	Aug. 1

*The redemption applies on a pro rata basis to all preferred stock certificates in the hands of stockholders as of the close of business June 20, 1944.

COMPANIES MAKING LASTING GAINS FROM WAR-TIME CHANGES

BY FRANK R. WALTERS

A LARGE number of companies have made greater profit from war-time business than they had in the years preceding the war, and many others have built poor working capital positions into strong ones. Conversely, there are plenty of others which have not bettered their position, or have not had as large earnings as their pre-war average. This study is of those companies which have made some specific gain in the past two or three years which should be a permanent benefit to them.

Thus, many of the railroads have had very large earnings—after a ten-year period in which general results were none too good—in the past three years. War earnings have enabled at least two, which were "marginal," to graduate from that class, through large debt retirements and building a very large working capital out of war-time income. Several others which were of doubtful solvency in 1941 seem to have placed their financial position on a sound footing for some years to come, at least. Roads which had been in receivership have had enormous earnings in the past two or three years, which will make their reorganization easier and will give the new road a strong position at the start.

Before discussing other industries which have been benefitted by war-time earning power, with lasting good indicated, it might be well to discuss briefly the ones which may not have received more than a temporary gain. Profits in making airplanes have been very extensive but the industry will be left with a capacity to produce 100,000 airplanes a year, and the demand is certain to be greatly below that, hence post-war profits may be small. Coal mining has been quite profitable, but a return to pre-war conditions may be expected within a year or so after hostilities cease. Shipbuilding, machine tool making, munitions making, copper mining, heavy steels output, and several other war-stimulated lines may have a long period of poor profits to eat up their working capital, in the post-war era.

Many companies which will go into new activities in civilian business will get lasting good from war changes. The motor car, motor accessory, rubber, building supply, radio, household appliance and similar lines which have found work to do for the Government while their own lines were forced to suspend or sharply curtail, will benefit directly from the war. Many of them have built up strong working capital positions from war profits, have retired debt or preferred stocks, and they will find a big market for their normal products because of the cessation of making civilian goods during the war.

Probably no industry has been as active in the war effort as the electrical goods, and most particularly the radio, television and electronics part of it. It is true that steel and rubber companies have given over the major part of their work to Government orders, but both have filled some part of civilian demand. None of the major electrical goods have been produced for civilians, outside of electric bulbs. In addition to the unbelievably large

orders which the electrical goods industry has received for radio tubes for use in radios, television and other communications, it has developed some entirely new devices for war use which will have their peace-time applications. It is believed that radar, for example, will be widely adopted for civilian use after the war ends. Enormous strides have been made in improving television broadcasting and reception in the past two years and numerous electronics devices have been developed for the armed forces which will have their use for other purposes. Among the leaders in developing new things in these lines have been Philco, General Electric, Farnsworth, Sylvania Electric, Radio Corp. and Westinghouse Electric.

Companies formerly in other lines have entered the electronics field in connection with war work. Most conspicuous among them is Minneapolis-Honeywell Regulator, and it expects to use several of the new devices which it has perfected, after the war ends. This company has also gone into the making of a number of optical lines on a large scale, and plans to develop this business further. As a result of recent experimentation it has developed some new principles in air conditioning controls under which the temperature and humidity in single rooms can be regulated to suit, independent of other parts of the building.

The air conditioning and refrigeration companies such as Carrier Corp. and York Corp. have made many large scale installations in factories, on battleships, etc. and have developed new techniques and new appliances which will be of value to them in peace-time work.

An industry which has made enormous strides during the war period, and which will carry into civilian applications some of the things developed for war use, is the plastics business. Very few of the companies in this field are in just this one line, but it is a separate industry nevertheless, even though it is just a sideline to many of the companies which made plastics. These include duPont, Union Carbide, Dow Chemical, Celanese, General Electric and many others. Possibly duPont and Celanese have a larger portion of their total business in plastics than some of the others. Both have found many new uses for their synthetic products and have further developed them, because of war orders. Celanese Corporation has also gone into a number of new chemical products in the past two years, and has added to its main activity of producing celanese yarns and fabrics, with a particular development in the last-named through its wide adaptation of celanese cord for motor car and truck tires. These extensions to its business should be of great value in peace times. As for duPont, it is possible that it has made twenty or more new lines of products for war use which will be carried on in peace times. It is known that many new uses for nylon have been developed, also several important new chemical compounds, while a water-proof paperboard has been perfected which may be of high

value for post-war use. Practically all of the companies in the rayon, plastics and chemical industries have been called on to do new kinds of work for war use and expect to find new markets from part of this for civilian uses.

Many of the aircraft supply makers may be expected to find sharp curtailment in the scope of their business after the war. Such of them as had formerly been in automobile accessory making will swing into that work again. Conspicuous among them is Bendix Aviation. It has been quite active in the war period in making communications equipment and will find that valuable, in addition to supplementing its normal auto accessory products with some new ones developed during the war period. Another auto accessory company which has gained something of great value from war work is Stewart-Warner. It has a small heater of great power which it has developed for use in airplanes, and which is to be made for home heating, with claims that this small unit, which can be placed in any part of a home, will adequately heat a twenty-room house, using gasoline

as fuel. If it can fulfill its claims, it may revolutionize home heating.

Zenith Radio has developed a low-priced apparatus to aid the deaf to hear. It is expected that numerous members of the armed forces will have their hearing impaired and will purchase the Zenith instrument.

New techniques, as well as direct advantage to their own work, have been made possible by the war for many of the automobile companies which have manufactured high powered airplane engines. This particularly applies to Studebaker and Nash-Kelvinator. An even greater gain has been given to Willys-Overland through the "jeep." They have developed a high-powered but small all-purpose car in the "jeep," and will be able to adopt its principles not only for pleasure cars and commercial automobiles, but also may apply it to farm machinery. In addition to this, Willys-Overland has built up its financial position sufficiently to enable the company to retire its preferred stock, while its working capital at the end of 1943 was (*Please turn to page 374*)

EXAMPLES OF BASIC IMPROVEMENT

	Earned per sh. 1943	Dividend Rate	Prices for Stock		Benefits Company Gained in War Work
			Lowest 1936-42	Highest 1943-44	
Allis-Chalmers Mfg.	\$4.51	\$1.25	21 3/4	43 1/4	Developed gas turbines which will be used for locomotives; built working capital.
Armour & Co.	1.97	—	2 1/8	6 3/8	Merged its Delaware subsidiary, revamped capital structure, built working capital, from war-stimulated earnings.
Baltimore & Ohio R. R.	3.51	—	2 1/8	10	Retired \$100,000,000 face value of debt in past three years, built working capital from nothing to large size.
Bendix Aviation	6.95	3.00	8 1/4	41 1/8	Developed large list of new products, became large factor in communications equipment.
Celanese Corp.	2.83	stock	9	40 3/8	Greatly increased plastics, chemical, and yarn and fabrics uses, adding many new products and processes.
Delaware & Hudson Co.	19.08	—	6	34 1/2	Went from very low financial position to one of great strength in two years and retired large amount of bonds.
E. I. du Pont de Nemours	5.59	4.25	90 1/2	162 1/2	Developed numerous new uses for nylon and various plastics; brought out new drugs, chemicals and a water-proof paper-board.
Erie Railroad	3.14	1.00	2	16 3/4	Successfully consummated reorganization, started common dividends and built large working capital.
General Precision Equip.	2.21	1.00	7 3/4	24 1/2	Improved moving picture projectors and other equipment; has new television screen for theatres, etc.
Minneapolis-Honeywell Reg.	2.75	1.25	16 5/8	41 1/4	Has entered field of electronics and optical goods and perfected new controls for air conditioning single rooms.
Nash-Kelvinator	1.10	0.50	3	17	Learned many new skills in high-power engine output and in mass production of Seversky helicopters.
New York Central	9.73	1.50	6 5/8	20 3/4	Made large debt reduction, built working capital to over \$100,000,000 and seems permanently out of "marginal" class.
Pennsylvania-Dixie Cement	def. 0.79	—	1	3 3/4	Reduced debt, built up working capital and attained good position for the post-war building boom.
Philco Corp.	2.60	1.00	7 5/8	35 3/8	Developed greatly improved television and electronics devices, also new communications accessories.
Southern Pacific Co.	15.48	2.00	6 3/4	32 1/2	Has also "graduated" from the "marginal" class through debt reduction and working capital gain.
Standard Oil of New Jersey	4.53	2.50	29 7/8	60	Has become one of largest makers of high octane gasoline and synthetic rubber and in development of many new petroleum chemicals.
Stewart-Warner	1.58	0.50	4 1/2	17 1/4	Has developed new radio communication devices, also a "revolutionary" small heater adaptable for homes.
Studebaker Corp.	1.23	0.25	3	19 1/2	Learned techniques of making high-powered engines and has built up large working capital.
Sylvania Electric Products	1.81	1.25	10	35 1/4	Has extended operations in radio tubes and electronics devices and acquired radio manufacturing company.
United States Plywood	3.14	1.20	7	44 1/2	Developed many new uses for plywood which will have post-war follow-up in building operations.
Willys-Overland	1.33	—	1	19 1/2	Through work on the "jeep" has laid foundation for new operations after war; retired the preferred stock, the working capital gained 400% in 2 years.

Evaluating Low-Priced Stocks

(Continued from page 351)

in its principal selling lines. Company's past earnings record is drab, with dividends infrequent. With large deferred demand existing in the company's merchandising lines, there appears to be a good prospect for post-war recovery of earning power. Large sums have been spent to modernize the organization and to improve operating efficiency, and this may well bear fruit after the war. On a purely statistical basis, the stock despite the somewhat speculative capitalization does not look overvalued. At present, the common sells around 8½ compared with book value of \$10.38. Total valuation of the common issue is less than half of working capital and less than a third of net tangible assets, and it is not high in relation to sales and earnings. While distinctly speculative, Spear at 8½ looks genuinely low-priced with the preferred stock imparting a good deal of leverage. In the past, this made for fairly wide fluctuations in earnings.

Norwalk Tire & Rubber, in view of the company's poor peace time record, appears adequately priced but considering the large deferred demand for tires, the stock is not without some speculative merit. Currently, it sells at around 6½ compared with book value of \$4.46. This price fully discounts normal expectations but perhaps takes not fully into consideration the exceptional possibilities existing in the tire field for some years after the war, notably the prospective absence of the type of pre-war price competition which led to extremely narrow profit margins in the past. Relatively small plant capacity, however, limits future potentialities. On the whole, appreciation possibilities, while existing, are not more than average, according to the present outlook.

Really low-priced stocks, as the result of this and our former survey has shown, are quite scarce today, that is stocks which are inherently sound and statistically cheap. Fact is that recent advancing markets and public preference of low-priced equities has carried most of them to levels where they are no longer cheap and no longer represent bargains. Any market reaction of course will again widen the field, hence the reader may profitably await future market setbacks for bargain hunting.

Such setbacks, among other things, would certainly enhance the possibilities of some of the issues discussed in this and the preceding article, even where negative conclusions are arrived at.

Beyond that, we have listed in the appended box ten low-priced opportunities which we believe hold outstanding potentials, on an over-all basis. Timing of purchases, however, should only be undertaken in line with the market advice given by Mr. A. T. Miller in every issue of the Magazine.

Two "Special Situations" . . .

(Continued from page 357)
being about three times the prewar level.

While the company was incorporated in 1912, its principal growth probably occurred in the 1920's. Assets dropped about one-third during the depression of the early 1930's but since 1938 have gained 80% (principally in current assets). Book value has increased from \$5.81 in 1932 to \$18.72 at the end of last year.

The company managed to maintain adequate working capital during the depression years, and the small remaining funded debt was retired in 1938. Present capitalization consists of 54,919 shares of \$5 preferred stock and 89,529 shares of common. The present preferred, issued in 1936, is convertible into 3¾ shares of common stock and hence the present price of about 112 discounts a figure of 30 for the common. It is callable at 105. The yield on the preferred is about 4½%, and on the common (based on the \$2.00 dividend rate paid since 1940) 7.7%. Dividends have been paid on the common since 1924 with the exception of 1932-5; the stock was split 3-for-1 in 1937.

Marketwise the stock has been remarkably steady following its rise from ½ in 1933 (adjusted for split-up) to 33¾ in 1937. While the low points in 1938-43 varied between 10 and 18, the high points have ranged only between 21-26.

Earnings in 1943 were \$3.33, slightly lower than in the two preceding years; taxes and renegotiation absorbed nearly four-fifths of net profits last year. Interim earnings are only published for a six months' period. Selling at less than eight times earnings, and with diversified sales and improved profit margins anticipated for the post-war period, the stock appears outstanding in its class.

Selecting Best Stocks in the Most Promising Industries No. 8—RUBBERS

(Continued from page 348)

tracts are terminated, no doubt at least former average liquidity ratio—more likely a somewhat higher one—will be restored.

Firestone's best earnings in recent pre-war years—such as 1936-1937 and 1940—were only a little over \$3 a share. How much better than that might they be in the most active post-war period? The answer, obviously, must be both conjectural and speculative. Sales will, of course, be much less than now. Suppose—just to think out loud—that they approximate the \$268,000,000 of 1941. That is conceivable, for we did not swing into full-steam war output until 1942. For some years to come, defense needs for maintenance of peace-time armed forces may take almost as much rubber as was taken in the twelve months, October 1940 to October 1941; while civilian demands for a goodly period will be larger than in 1941 even though that was an excellent tire year. Then too, there will be sizable increases of volume in various new products. Finally, foreign demand will be heavy.

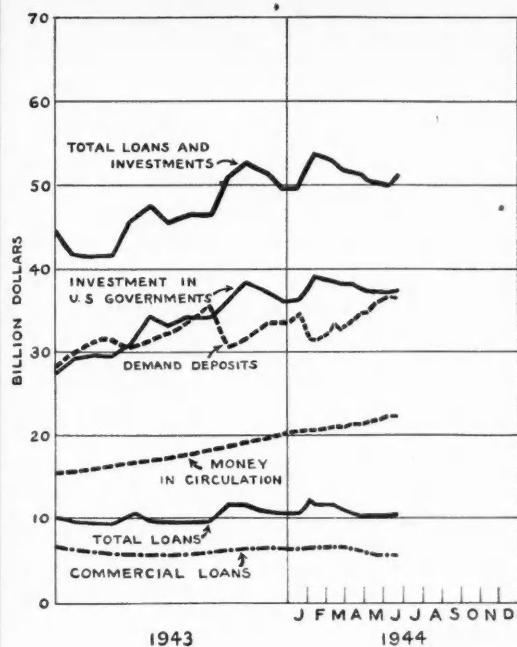
Suppose the excess profits tax has been repealed, the profit margin approximates that of 1941, there is no contingency reserve deduction and the Federal tax is 40 per cent. On these assumptions—which we emphasize, are not forecasts—the writer figures Firestone's profit would be a bit over \$8 per common share; and with the same assumptions, but a 50 per cent Federal tax rate, would be somewhere around \$7 per share.

The capitalization, changed several times since the 1920's, is approximately \$44,777,000 in 3 per cent debentures which are being gradually retired through sinking fund, \$45,000,000 in 4½ per cent cumulative preferred stock—which was issued only a few months ago, with substantial savings in preferred dividend requirements, when previous outstanding issue of similar number of 6 per cent shares was called—and 1,945,896 shares of common. For other pertinent statistics, note the accompanying table.

Firestone can change over quickly from war production. For instance, to quote the management: "The factory now making plastic helmet liners can, overnight, be

(Please turn to page 373)

MONEY AND BANK CREDIT



CONCLUSIONS

MONEY AND CREDIT—Campaign talk about drastic reductions in post-war tax rates should not be taken too seriously; though shackles on risk capital may be eased eventually.

TRADE—Department store sales in week ended June 17 were 3% above last year, against increase of 6% for four weeks and for the year to date.

INDUSTRY—Business dip following Nazi defeat may be shorter and less severe than generally expected. Widely publicized warnings are spurring adoption of preventive measures.

COMMODITIES—Farm prices, cash and futures, rally sharply following enactment of price control extension bill calling for Government support of important commodities at parity.

The Business Analyst

Per capita business activity has steadied during the past fortnight at its all-time high, a mild sag in steel ingot and electric power output having been offset by the voraciously mounting war demand for petroleum products. Department store sales in the week ended June 17 were only 3% above last year, compared with an increase of 6% for four weeks and for the year to date.

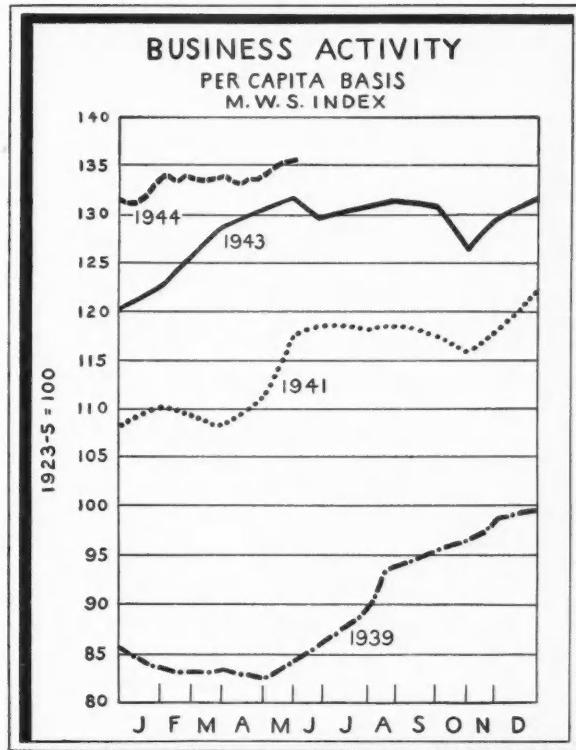
* * *

Commerce Department predicts that the national income will start turning down in the next six months—slowly until Germany falls, then a sharp drop, followed within a few months by a rise as reconversion is accomplished; but that the year's total will top last year's \$148 billion. We agree with this in the main; but doubt if the temporary drop will be as sharp as expected by Washington officialdom.

* * *

Once a Nazi defeat is in sight, there is going to be too much competition between civilian business and the Army for any surplus capacity, material or manpower that might develop to permit even a temporary recession of any magnitude until Japan also is defeated. By the time Germany surrenders, preparations for reconversion will be so far advanced that resumption of civilian production will almost immediately take up the slack as fast as capacity can be

(Please turn to the following page)



Inflation Factors

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor	PRESENT POSITION AND OUTLOOK
FEDERAL WAR SPENDING (\$b) Cumulative from Mid-1940.....	June 21	1.91	1.70	1.70	0.43	(Continued from page 365)
	June 21	197.2	195.3	107.3	14.3	city is released by the military.
FEDERAL GROSS DEBT—\$b	June 21	188.9	187.6	135.6	55.2	* * *
MONEY SUPPLY—\$b						
Demand Deposits—101 Cities.....	June 21	36.4	37.2	32.5	24.3	It is even doubtful if much plant capacity will be released permanently for civilian production until both foes are defeated. With Germany out of the way, there is a good possibility that the Armed Forces will want to continue all-out production of armament in order to shorten the war against Japan. Experience gained in actual warfare against still strong and determined foes can cause swift and radical shifts in previous ideas as to armament needs.
Currency in Circulation.....	June 21	22.3	22.3	17.2	10.7	
BANK DEBITS—13-Week Avg.						
New York City—\$b.....	June 21	5.10	5.04	5.37	3.92	
100 Other Cities—\$b.....	June 21	7.36	7.26	7.16	5.57	
INCOME PAYMENTS—\$b (ed)						
Salaries & Wages (cd).....	Apr.	12.49	12.87	11.40	8.11	
Interest & Dividends (cd).....	Apr.	8.97	8.98	8.20	5.56	
Farm Marketing Income (ag).....	Apr.	0.82	1.13	0.76	0.55	
Includ'g Govt. Payments (ag).....	Apr.	1.40	1.43	1.32	1.21	
	Apr.	1.47	1.51	1.39	1.28	
CIVILIAN EMPLOYMENT (cb) m						
Agricultural Employment (cb).....	May	52.0	51.3	52.6	50.4	
Employees, Manufacturing (lb).....	May	8.6	7.5	8.9	7.7	
Employees, Government (lb).....	May	16.0	16.2	16.8	13.6	
UNEMPLOYMENT (cb) m	May	5.9	5.9	6.0	4.5	
	May	0.9	0.8	0.9	3.3	
FACTORY EMPLOYMENT (lb4)						
Durable Goods	May	159	161	167	141	
Non-Durable Goods	May	218	221	226	168	
FACTORY PAYROLLS (lb4)	May	112	113	121	120	
	Apr.	318	384	310	189	
FACTORY HOURS & WAGES (lb)						
Weekly Hours	Mar.	45.3	45.3	44.7	40.3	
Hourly Wage (cents).....	Mar.	100.6	100.3	93.4	78.1	
Weekly wage (\$) Retail (cdlb).....	Mar.	45.62	45.44	41.75	32.79	
PRICES—Wholesale (lb2)						
Retail (cdlb).....	June 17	103.7	104.0	103.5	92.2	
	Apr.	136.4	135.3	133.9	116.1	
COST OF LIVING (lb3)						
Food	May	125.0	124.5	125.1	110.2	
Clothing	May	135.5	134.6	143.0	113.1	
Rent	May	137.0	136.9	127.9	113.8	
	May	108.1	108.1	108.0	107.8	
RETAIL TRADE						
Retail Store Sales (cd) \$b.....	Apr.	5.41	5.59	5.21	4.72	
Durable Goods	Apr.	0.72	0.75	0.79	1.14	
Non-Durable Goods	Apr.	4.69	4.84	4.42	3.58	
Chain Store Sales (ca).....	May	191	186	171	151	
Dept. Store Sales (rb) (l).....	May	140	140	125	116	
Dept. Store Stocks (rb2).....	Apr.	98	101	87	95	
MANUFACTURERS'						
New Orders (cd2)—Total.....	Apr.	281	271	280	212	
Durable Goods	Apr.	406	384	409	265	
Non-Durable Goods	Apr.	200	198	197	178	
Shipments (cd3)—Total.....	Apr.	280	273	253	183	
Durable Goods	Apr.	387	369	338	220	
Non-Durable Goods	Apr.	196	197	186	155	
BUSINESS INVENTORIES—\$b						
End of Month (cd)—Total.....	Apr.	27.8	28.0	27.6	26.7	
Manufacturers.....	Apr.	17.4	17.5	17.4	15.2	
Wholesalers'	Apr.	4.1	4.1	4.0	4.6	
Retailers'	Apr.	6.3	6.4	6.2	7.2	

PRODUCTION AND TRANSPORTATION

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pearl Harbor	PRESENT POSITION AND OUTLOOK
BUSINESS ACTIVITY—1—pc (M. W. S.)—1—np	June 17	136.1	136.2	131.6	118.2	to establish homes or businesses. 3—Authorizes individual grants for four years of training and education, to the amount of \$500 a year plus monthly subsistence pay of \$50 for single and \$75 for married veterans. The Veterans' Bureau is planning to set up facilities for advising veterans of their rights under this bill.
	June 17	165.8	165.9	157.6	139.5	
INDUSTRIAL PRODUCTION (rb3)	May	237	239	239	174	* * *
Durable Goods, Mfr.	May	357	361	359	215	
Non-Durable Goods, Mfr.	May	170	172	176	141	Congress also completed, and sent to the White House, a compromise measure extending price and wage control for another year beyond June 30. About the best that can be said of this patchwork product of pressure group politics is that it will make a tough job tougher for the O.P.A.
CARLOADINGS—4—Total	June 17	879	874	868	833	
Manufactures & Miscellaneous	June 17	387	383	387	379	* * *
Mds., L. C. L.	June 17	104	104	98	156	
Coal	June 17	182	183	177	150	
Grain	June 17	45	44	50	43	There is a lot of campaign talk about slashing tax rates drastically after the war; but don't count too much on this now or even next year—not until something definite is known about the post-war size of the national income and the Federal budget. Present strangulating penalties on risk capital will undoubtedly be eased; but, unless deficit financing is to continue indefinitely, tax receipts must be large enough to finance huge expenditures for unemployment relief, aid to veterans, schemes to support farm prices, and a big military establishment.
ELEC. POWER Output (K.w.H.) m	June 17	4287	4,235	4,098	3,269	
SOFT COAL, Prod. (st.) m	June 17	12.3	12.5	12.0	10.8	* * *
Cumulative from Jan. 1	June 17	297	285	275	466	
Stocks, End Mo.	Apr.	50.5	51.8	78.7	61.8	ag—Agriculture Dept. b—Billions. ca—Chain Store Age, 1929-31—100. cb—Census Bureau. cd—Commerce Dept. cd2—Commerce Dept., Jan., 1939—100. cd3—Commerce Dept., 1939—100. cdb—Commerce Dept. Index (1935-9—100) using Labor Bureau & other data. en—Engineering News-Record. I—Seasonally adjusted index. 1923-5—100. lb—Labor Bureau. lb2—Labor Bureau, 1926—100. lb3—Labor Bureau, 1935-9—100. lb4—Labor Bureau, 1939—100. m. Millions. mpt—At Mills. Publishers & in Transit. np—Without compensation for population growth. pc—Per capita basis. rb—Federal Reserve Board. rb2—Federal Reserve Board, adjusted index, end of Mo., 1923-5—100. rb3—Federal Reserve Board adjusted index, 1935-9—100. st—Short tons. t—Thousands. tf—Treasury & R. F. C.
PETROLEUM—(bbls.) m	June 17	4.57	4.52	3.97	4.11	
Crude Output, Daily	* June 17	85.27	86.91	79.59	87.84	* * *
Gasoline Stocks	June 17	52.02	51.22	66.93	94.13	
Fuel Oil Stocks	June 17	34.14	33.67	31.75	54.85	* * *
Heating Oil Stocks	June 17	643	648	666	632	
LUMBER, Prod. (bd. ft.) m	May	3.4	3.4	4.0	12.6	There is a lot of campaign talk about slashing tax rates drastically after the war; but don't count too much on this now or even next year—not until something definite is known about the post-war size of the national income and the Federal budget. Present strangulating penalties on risk capital will undoubtedly be eased; but, unless deficit financing is to continue indefinitely, tax receipts must be large enough to finance huge expenditures for unemployment relief, aid to veterans, schemes to support farm prices, and a big military establishment.
Stocks, End Mo. (bd. ft.) b	May	7.68	7.57	7.55	6.96	
STEEL INGOT PROD. (st.) m	May	37.8	30.2	36.8	74.69	* * *
Cumulative from Jan. 1	May	28.0	29.2	53.7	93.5	
ENGINEERING CONSTRUCTION AWARDS (en) \$m	June 22	857	829	1,766	5,692	* * *
Cumulative from Jan. 1	June 22	28.0	29.2	53.7	93.5	
MISCELLANEOUS	June 17	148	144	136	165	* * *
Paperboard, New Orders (st)t	May	61	55	69	88	
U. S. Newsprint (st)t—Prod.	May	229	214	227	283	* * *
Do., Imports from Canada	May	2	1	1	1	
Do., Exports	May	264	268	331	352	* * *
Do., Consumption	May	475	451	521	523	
Do., Stocks (mpt), End Mo.	May	475	451	521	523	

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

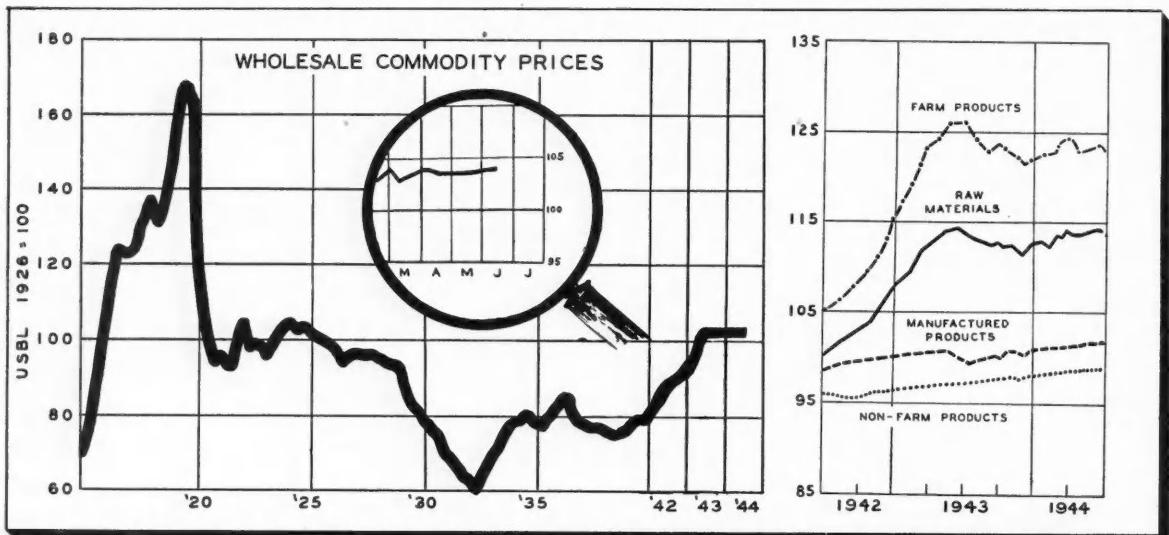
No. of Issues (1925 Cl.—100) 283 COMBINED AVERAGE	High 98.1	1944 Indexes Low 79.5	June 24 95.2	July 1 98.1G	(Nov. 14, 1936, Cl.—100) 100 HIGH PRICED STOCKS 100 LOW PRICED STOCKS	High 70.68 104.02	Low 62.77 75.33	June 24 70.14 98.23	July 1 70.68E 104.02G
4 Agricultural Implements	178.9	148.6	176.8	178.9G	6 Investment Trusts	41.9	34.0	41.2	41.9G
9 Aircraft (1927 Cl.—100)	133.0	118.5	128.8	133.0A	3 Liquor (1927 Cl.—100)	365.4	291.4	353.2	343.1
5 Air Lines (1934 Cl.—100)	491.9	421.9	483.6	491.9A	8 Machinery	122.5	105.2	120.0	122.5E
5 Amusement	79.8	68.2	79.3	79.8N	2 Mail Order	93.3	82.5	93.3D	92.7
13 Automobile Accessories	172.6	119.0	154.0	172.6Q	3 Meat Packing	70.2	55.5	66.6	70.2G
12 Automobiles	29.8	17.6	27.9	29.8G	11 Metals, non-Ferrous	147.7	116.4	144.5	147.7A
3 Baking (1926 Cl.—100)	15.0	12.9	14.5	15.0A	3 Paper	16.7	12.9	16.5	16.7D
3 Business Machines	207.9	171.9	204.6	207.9G	22 Petroleum	136.7	121.3	134.9	136.7A
2 Bus Lines (1926 Cl.—100)	118.4	101.9	114.6	118.4E	19 Public Utilities	56.7	48.7	53.8	56.7A
5 Chemicals	197.1	176.0	194.6	197.1G	4 Radio (1927 Cl.—100)	28.5	21.5	27.5	28.5G
4 Communication	73.0	57.1	71.8	73.0G	7 Railroad Equipment	58.0	51.5	57.7	58.0E
12 Construction	42.3	33.1	41.3	42.3E	18 Railroads	19.9	14.1	19.8	19.9E
6 Containers	273.7	220.1	270.0	273.7G	2 Shipbuilding	83.7	70.3	82.7	81.3
8 Copper & Brass	73.0	62.5	69.7	73.0A	3 Soft Drinks	351.3	305.2	350.3	349.4
2 Dairy Products	46.2	38.6	45.4	46.2	12 Steel & Iron	78.5	65.7	75.7	78.5A
6 Department Stores	35.5	28.2	35.0	35.5G	3 Sugar	50.1	41.7	49.2	50.1Q
5 Drugs & Toilet Articles	112.0	81.0	109.5	112.0N	2 Sulphur	171.7	160.7	167.2	171.1
2 Finance Companies	247.0	216.1	245.0	240.7	3 Textiles	57.6	48.0	57.6E	56.0
7 Food Brands	137.4	123.1	133.6	137.4Q	3 Tires & Rubber	33.2	25.4	33.1	33.0
2 Food Stores	53.9	46.5	53.0	53.9D	4 Tobacco	72.4	60.2	72.1	72.4C
4 Furniture	77.0	56.4	74.8	77.0G	2 Variety Stores	242.8	219.7	242.1	241.9
3 Gold Mining	1010.4	879.8	994.0	982.1	21 Unclassified (1943 Cl.—100)	126.3	98.7	119.0	126.3A

New HIGH since: A—1943; C—1941; D—1940; E—1939; G—1937; N—1931; Q—1929.

Trend of Commodities

Under leadership of cotton and wheat, prices for farm products in both the cash and futures markets rallied rather sharply following passage by Congress of the compromise measure to extend price and wage control for a year beyond June 30. Occasion for the fireworks was a little publicized clause in the bill specifying that the Government "shall take all lawful action" to assure farmers parity prices for basic commodities. Another amendment raises the loan value on cotton to 92.5% (previously 90%) of parity, and directs the O.P.A. to raise ceilings on textiles to conform with the higher prices for cotton. According to the B.A.E., the average price received by farmers for cotton on May 15 was 19.80 cents, against a computed

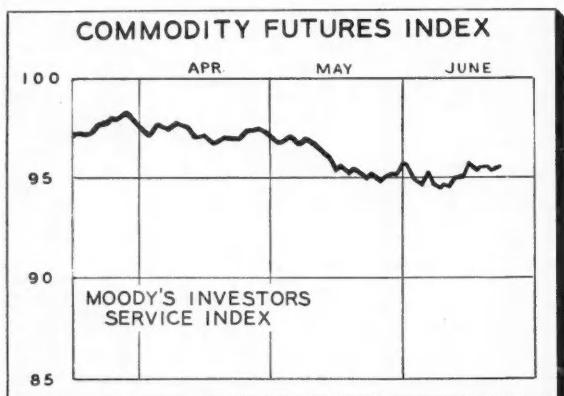
parity of 21.08 cents. On that same date only two other of the six "basic" commodities—wheat at 98% and peanuts at 94% (same as cotton)—were below parity. Corn, rice, and tobacco were selling at parity. The mandate to support prices also includes all other farm products for which the W.F.A. has asked increased production. Among these are eggs which the Government has had great difficulty in supporting at 27 cents a dozen (91% of parity). Now some means must be found to boost the farm price to 30 cents. Agriculture Department officials are inclined to think that the Government may have to purchase considerable quantities of below-parity commodities to carry out the bill's provisions.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices — August, 1939, equals 100

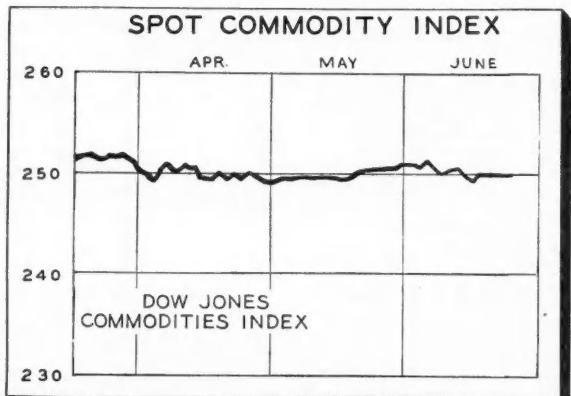
	Date 2 Wk.	I Mo.	3 Mo.	6 Mo.	1 Yr.	Dec. 6	
June 24 Ago Ago Ago Ago Ago Ago 1941	182.4	182.2	181.7	180.8	178.7	176.4	156.9
28 Basic Commodities	168.4	168.4	168.6	168.2	168.0	167.7	157.5
11 Import Commodities	192.0	191.7	190.7	189.5	186.1	182.3	156.6

	Date 2 Wk.	I Mo.	3 Mo.	6 Mo.	1 Yr.	Dec. 6	
June 24 Ago Ago Ago Ago Ago Ago 1941	223.0	223.7	224.1	222.1	217.7	208.9	163.9
7 Domestic Agricultural....	207.2	207.7	207.6	206.9	205.9	200.9	169.2
12 Foodstuff	165.5	165.0	164.2	163.2	160.6	159.9	148.2



Average 1924-26 equal 100

	1944	1943	1942	1941	1939	1938	1937
High	98.13	96.55	88.88	84.60	64.67	54.95	82.44
Low	94.54	88.45	83.61	55.45	46.50	45.03	52.03



15 Commodities, December 31, 1931, equal 100

	1944	1943	1942	1941	1939	1938	1937
High	251.5	249.8	239.0	219.0	172.3	152.9	228.1
Low	247.0	240.3	220.0	171.6	138.4	130.1	144.6

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Investment Audit of Alleghany Corporation

(Continued from page 353)

prior preferred, callable at 50 and with arrears of \$23.125 as of December 31, 1944, seems definitely underpriced at 55. This issue is well protected from an asset standpoint and company purchases seem almost certain. Admittedly this stock is not for the person seeking income, since a dividend on this stock is not probable until full retirement of the company's bank loan is effected and further debt reduction is accomplished. For those investors who can forego income, and who desire an issue well protected by assets and earnings, we believe that this issue will ultimately sell at its call price plus arrears which combined should exceed \$75 per share.

The Junior \$5.50 preferred, callable at 105 and with arrears of \$69.66 as of December 31, 1944, is for all intents and purposes the equity which will share in the rising fortunes of Alleghany. Should merger of the C & O affiliates be consummated, and greater cash inflow to C & O materialize, this junior issue would become the primary beneficiary of such development. In like manner, this issue would benefit from any further probable rise in Alleghany's portfolio of defaulted securities. Selling at a market discount from current liquidating value of from \$48 to \$60 per share, with prospects of ultimately higher liquidating values, Alleghany junior preferred offers interesting possibilities to the patient holder.

The junior equity, at 2 1/4, represents a long term call on a rising market for rail securities. The common is definitely "under water." Alleghany's portfolio must appreciate some \$80 million merely to cover call price and arrears on the junior preferred, and some \$90 million to cover a price of 2 1/4 for its 4,522,597 shares.

Speculative possibilities lie in ability of the management to manage its portfolio skilfully over coming years and gradually purchase both preferred issues at a discount from liquidating value which would gradually improve the position of the equity. However, we cannot enthuse too greatly over prospects of this equity over the next few years and we would characterize Alleghany common as an exceedingly radical speculation only for those with extreme patience and possessed of the optimism of our earlier pioneer days.

Drug Companies Appraised for Income and Profit

(Continued from page 356)

years. Dividends are 60 cents. The company has \$250,000 funded debt and 900,000 shares of \$7.50 par value capital stock.

Chesbrough Manufacturing Company was formerly a Standard Oil of New Jersey subsidiary but was segregated in 1911. It has had a record of many years of large earnings as the producer of Vaseline and similar petroleum derivatives. It had sales in many foreign countries before the war. Its distributing agent in the United States is Colgate - Palmolive-Peet (described above). In the 1920s, the company often had earnings above \$10 a share annually and sometimes near to \$15. In the past twelve years, they have been above \$5 a share every year and often over \$7. The 1943 net was \$7.82 a share against \$6.95 in 1942. Dividends have been large and were \$6 a share or more for every year for a long period until 1942, when \$5.50 was paid, and the same was paid in 1943. The company has only one class of security consisting of 120,000 shares of \$25 par value.

Lehn & Fink Products Corporation is widely known through its advertising of Pebeco tooth paste, Lysol disinfectant, Hinds Honey & Almond Cream and other drug and cosmetic items. The company had a material increase in income in the past two years, with \$3.22 a share for the fiscal year to June 30, 1943, and indications of somewhat above that for the year to June 30, 1944. For a number of years before, income was from 83 cents a share to \$1.94. The current dividend rate is \$1.40. The company has only one class of security consisting of 400,000 shares of \$5 par value capital stock.

Zonite Products Corporation makes tooth paste, disinfectant, tonics, moth proofing chemicals, cleansing preparations and floor wax. The company had small earnings in many years, with the best results in the past fifteen years in 1943 with 62 cents a share. The dividend rate is 30 cents. The only security is 825,656 shares of \$1 par capital stock.

Norwich Pharmacal Company is best known for its Unguentine, a preparation for the relief of sunburn and other burns. It makes a number of other drugs and chemicals, vitamin products and aspirin. Earnings for many years have been close to \$1 a share annually, with \$1.12

NOTE—From time to time, in this space, there will appear an advertisement which we hope will be of interest to our fellow Americans. This is number nineteen of a series.

SCHENLEY DISTILLERS CORP., N. Y.

How Many Summers?

A generation ago, it was not unusual to hear the age of whiskey rated by the number of "summers" it had lain in the wood. A man making a nose-and-taste-test of a sample of whiskey might have been heard to inquire, "How many summers old?" He would think in terms of "summers"—rather than in years. And, generally speaking, he knew what he was talking about.

It is conceded by most distillers that the development of whiskey proceeds more rapidly in the barrels when the temperature in the storage or racking house is at summer heat. There still are those who believe that little or no change in whiskey occurs during the winter months. This opinion is not shared by some very well-posted modern distillers, who, while they admit of greater acceleration of the aging process in warm temperature, still believe that some change results from the changes in temperatures.

However, our most advanced distillery rack-houses are models of scientific construction. The temperature is thermostatically controlled. Really, it is summertime all year around—inside. Since the amount of moisture in the air is also important—the humidity is constantly tested and controlled. And this reminds us that we recently told you that the barrel is considered one of the raw materials out of which whiskey is made. Remember? Whiskey extracts certain flavor elements while it is stored in the "wood." And these flavor elements are variable because there is no exact uniformity in nature's raw materials. The oak from which the barrels are made varies according to the difference in soil where it was grown.

So, by the same token, difference in temperature likewise creates variables in whiskey. For instance, in an old-fashioned rack-house there were many tiers of barrels—from the floor to the underside of the roof. Distillery men discovered that the whiskey in the top-tier barrels, directly under the roof, took on different characteristics from that in the middle or bottom tiers. The hot sun on the roof, of course, was the answer. If you visit one of our whiskey-aging warehouses, you will see only a few tiers from the floor up. A thermometer test will prove the near uniformity of temperature, above and below.

How many of our fellow Americans have any idea of the care and precision that are exercised in present-day American whiskey production—to produce what we sincerely believe to be the world's finest whiskey? Yes, we'll say it again—

America Makes the Best of Everything!
MARK MERIT
of SCHENLEY DISTILLERS CORP.

P.S. The whiskey you are able to buy today, in moderate quantities, comes out of reserves. There is none made today. Distillers are making alcohol for war purposes—today and every day. First things come first!



GRAND COULEE DAM

Water over the dam

...and back of the dam . . . is creating a new land of opportunity in the great Pacific Northwest. The harnessing of the endlessly flowing Columbia River and other swift running streams generates the nation's greatest regional supply of hydro-electric power.

Today, these great, man-made sources of energy are helping to win the war . . . keeping aluminum reduction mills at high speed production . . . filling the light metal needs of our great wartime air armada, our navy and our merchant marine.

Their postwar possibilities hold limitless promise. Here is a source of low-cost power ready for immediate action and potentially equal to the heaviest demands of rapid industrial expansion. Here are planned irrigation projects capable of transforming millions of acres of rich, but arid, land into fertile farms and orchards. New trading centers will thrive.

Look to the Pacific Northwest

New manufacturing will augment the lumbering, shipping, fishing, farming and mining industries, to which the Pacific Northwest owes its ascendancy. Vast quantities of goods will flow to Alaska, China and all the Orient from the natural deep-water harbors of the Pacific North Coast ports.

The Milwaukee Road serves this region of boundless opportunity. We have long had faith in its future. To the builders of America we say: "Look to the Pacific Northwest!"

BUY MORE BONDS

THE MILWAUKEE ROAD

ELECTRIFIED OVER THE ROCKIES TO THE SEA

in 1943 and 92 cents in 1942. The dividend rate is 60 cents. The capital stock consists of 796,287 shares of \$2.50 par.

Mead, Johnson & Company is the highest market price for its stock and in average earnings per share in recent years of any in this group. Its products include a number of fish liver oil products of which the best known is Viosterol, special food items, baby foods and a number of other items sold directly to physicians. Most of its business is done on direct contact with physicians and druggists. Mead, Johnson has earned above \$7 a share for every year starting in 1935. The largest

net was \$11.38 a share in 1943, compared with \$8.81 in 1942. Dividends of \$7 a share were paid in many recent years. The 1943 rate was \$6.25. The outstanding securities are 170,000 shares of \$10 par 7% preferred and 165,000 shares of no par common.

Abbott Laboratories makes a number of medicines, biological products, drugs and chemicals. It has had a long period of earnings which ran from \$2 to \$3 a share annually, but had a decided increase in 1943 when net before special reserves was \$4.19 a share, against \$2.76 the year before. Dividends were \$2 a share in 1943 on the com-

mon. The company has 30,000 shares of \$4 preferred, par \$100 and 849,958 shares of no par common.

City, Inc., makes a number of cosmetics, perfumes, deodorants, toilet articles and similar items. Small earnings have been shown in recent years, ranging from 60 to 90 cents a share. The 1943 net was 65 cents a share. The dividend rate is 30 cents. There is only one class of security consisting of 1,474,000 shares of \$1 par capital stock.

A Challenge to Congress

(Continued from page 335)

thau, it was pleasant to hear, declared himself publicly in favor of post-war tax adjustments that would encourage "risk money investments in business and other sound ventures," however, the edge of that satisfaction was blunted by his admission that his policy is for holding post-war tax rates "quite high" as a means of paying off as quickly as possible our huge national debt, now already at the \$190 billion mark. To curb wishful thinking and undue optimism, it must be stressed that considerable preparation will be required for specific legislation to emerge from the recently launched investigation into tax reduction possibilities. Admittedly it is a difficult subject but assurance of a constructive tax policy would be one of the most helpful things that could be hoped for to promote quick and successful reconversion, and to stimulate transitional and post-war business.

The idea that venture capital must be encouraged, possibly by repeal of the capital gains tax, is gaining adherents everywhere but the Treasury, for one, is unalterably opposed to tampering with the capital gains tax. According to the present outlook, still rather nebulous, prospects are that normal and surtax corporate rates may be cut before the excess profits tax is lifted. Essentially, it will be up to Congress to work out a constructive tax policy. The need for it is clearly understood everywhere and Congress in proceeding along such lines will be assured of powerful popular support. This applies particularly to elimination of double taxation, a requisite to regeneration of private enterprise by encouragement of risk capital. Double taxation of corporate earnings, first as company profits, then as dividends, is perhaps the most typical anti-business tax. Not only does it discourage the private investor but it encour-

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EDWARD KATZINGER COMPANY

announces the change of its name to

EKCO PRODUCTS COMPANY



In making this change, we are officially adopting as part of our corporate name, the familiar trademark by which the company has in recent years become popularly known in the trade.

In every other respect, however, the company remains exactly as before. The same skilled craftsmen and designers, the same experienced operating organization and management carry on the tradition of quality and service that has characterized our business since its founding in 1888 by the late Edward Katzinger.

EKCO PRODUCTS COMPANY • CHICAGO

SUBSIDIARIES: GENEVA FORGE, INC., GENEVA, N. Y., STA-BRITE DIVISION, NEW HAVEN, CONN.
EKCO PRODUCTS COMPANY, BALTIMORE, MD.

A & J Kitchen Tools, Egg Beaters, Can Openers, Strainers • Geneva Forge Cutlery • Flint Hollow Ground Cutlery • Sta-Brite Table Flatware • Katzinger Bakers' Pans • Ekco and Ovenex Tinware • Tri-Spot Flashlights

ages debt financing by corporations and discriminates against the holder of equity securities. Its elimination would go a long way towards recreating the kind of economic climate most conducive to post-war prosperity. Unfortunately, official attitudes are not particularly helpful in this respect and if they prevail, prospects are dim for a major revision of the Federal tax laws in the early post-war years. It will be up to Congress to take the initiative, to translate the popular will into constructive action.

Action, too, has been delayed on the post-war public road bill now before Congress with authorization to

spend \$500 millions annually for three years on new interstate highways with a view to stabilize employment during transition. If the bill passes, cities for the first time will get earmarked funds of at least 30% of the total for road construction. Also, states have hitherto put up 50% of the funds to match the Federal Government's share; under the new bill, states will put up only 40%, a compromise of the original proposal to require them to pay only 25%. The main controversy, however, has been over changing the formula for distribution of Federal aid funds. The new bill proposes to distribute funds on basis of 50% for population, 25%

for area and 25% for the number of existing roads but a number of counter-suggestions have been made. One would use as a yardstick the figure of expected post-war unemployment which would mean building more highways in states that had most idle labor. Another would use motor vehicle registrations as a basis for allocating funds. A third would simply earmark a large part of the total for urban highways and apportion it by a method to be devised later on basis of developing needs. Since public works of this kind will presumably be first relied upon to cushion post-war or transitional unemployment, speedy enactment of realistic legis-

***AMERICAN CAR AND FOUNDRY MOTORS COMPANY**
30 CHURCH STREET
NEW YORK 7, N. Y.

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

Notice is hereby given that a Special Meeting of the Stockholders of American Car and Foundry Motors Company, a Delaware corporation, will be held at its office, No. 30 Church Street, New York, N. Y., on the 26th day of July, 1944, at 11 o'clock A.M., Eastern War Time, for the following purposes:

(1) to consider and take action upon the Plan of Merger of The Brill Corporation and American Car and Foundry Motors Company and Recapitalization of the Surviving Corporation, dated June 26, 1944, and to consider and take action upon a proposed merger, pursuant to the laws of the State of Delaware, of American Car and Foundry Motors Company, with and into The Brill Corporation, a Delaware corporation, which will be the Surviving Corporation, and shall thereafter be known as ACF-BRILL MOTORS COMPANY, substantially in accordance with said Plan of Merger and Recapitalization and the Agreement of Merger attached to said Plan as Exhibit A thereto;

(2) to consider and take action upon the Agreement of Merger between American Car and Foundry Motors Company and The Brill Corporation, dated June 19, 1944;

(3) if said merger shall be authorized, adopted and approved by the Stockholders of The Brill Corporation and by the stockholders of American Car and Foundry Motors Company, as required by the laws of the State of Delaware, to authorize its Board of Directors and the Board of Directors of the Surviving Corporation to take or cause to be taken all such action as shall be deemed to be necessary or advisable in order to carry out said merger and said recapitalization; and

(4) to transact such other business as may properly come before said meeting or any adjournment or adjournments thereof.

Pursuant to the action of the Board of Directors, the books for the transfer of shares of the Preferred Stock, and Common Stock of American Car and Foundry Motors Company will be closed at 3 o'clock P.M. on June 28, 1944 and will be reopened at 10 o'clock A.M. on July 28, 1944. Only those who are record holders of shares of such stock at the time of the meeting specified herein will be entitled to vote thereat.

If you cannot be personally present at the meeting, please be good enough to sign and return the enclosed proxy.

BY ORDER OF THE BOARD OF DIRECTORS
H. C. WICK, Secretary.

New York, N. Y., June 26, 1944.

A copy of the above mentioned Plan of Merger and Recapitalization, dated June 26, 1944, to which is annexed a copy of said Merger Agreement designated as Exhibit A, may be examined by any stockholder at the principal office of American Car and Foundry Motors Company, at 100 West 10th Street, Wilmington, Delaware, and at Room 2000, 30 Church Street, Borough of Manhattan, New York, N. Y.

lution would seem to be of paramount interest.

So far, post-invasion developments on the homefront look confused with only WPB, however tentatively, venturing to move realistically towards eventual reconversion and the broader transitional and post-war field that lies beyond. WPB optimism seems to dominate Government policy, expecting Germany's defeat before the end of the year but apparently this has failed to give impetus to congressional initiative in coming to grips with vital problems. Rather, bickering between political and economic

groups in Congress has continued and sidestepping the more controversial issues, the legislators finally recessed with much of their task undone. While adjournment was technically taken until August 1, no legislative program is planned for next month and members need not return on that date. Only congressional leaders will come back and arrange three-day recesses, presumably until Labor Day.

However, time presses. Congress has a job to do, a vital, important job that doesn't very well stand postponement. It should tackle it with-

out delay. The present is no time for long congressional vacations as if the time element were of no importance. Time is running out. Congress faces a real challenge, and how this challenge is met may turn out just as important, politically, as pre-election fence mending. Winning the war, of course, is the nation's paramount aim; but much can be done today, by adequate preparation, towards winning the peace as well. There need be no conflict between the two.

Opportunities For Income and Appreciation In Bonds and Preferred Stocks

(Continued from page 361)

receipt of varying cash payments.

Brazilian authorities have transferred \$42,000,000 to the U. S. A. to meet initial payments under the plan. The repudiation of a large portion of the country's debt seems to be incongruous as ever since the present war started, Brazil has been building dollar balances in the U. S. A. on a large scale.

The plan comprises an Option A and an Option B. The principal features are a lower rate of interest, provisions for amortization and against a sacrifice of principal, the choice under Option B to receive a cash payment, a shorter maturity and somewhat higher rate of interest than under Option A and, as regards state and municipal loans, the assumption of service liability by the Brazilian Government. Option B expires January 1, 1945, unless extended, and if not accepted by January 1, 1945, holders will be presumed to have accepted Option A.

The Commissioner of Internal Revenue has not, as yet, rendered an opinion as to the taxability of the exchange under either plan. While Plan B appears preferable for the average investor, it may be advantageous to withhold acceptance of either plan until the Commissioner renders his opinion.

ABITIBI POWER & PAPER CO.: Justice Kellock, liquidator of Abitibi in the Ontario Court has ruled that this company's bondholders are entitled to interest on interest and the bonds are payable at the holder's option in U. S. funds. This means that holders of coupons are entitled to interest at the contract rate of 5% yearly from their respective dates of maturity.

Buy War Bonds

Selecting Best Stocks in the Most Promising Industries No. 8—Rubbers

(Continued from page 364)

changed to the manufacture of radio cabinets. The plant producing high-altitude oxygen cylinders can be swiftly changed over to the production of stainless steel beverage containers. Facilities now being used to produce military mosquito netting can easily be converted to the manufacture of upholstery fabrics and insect screens."

"Naturally," the statement adds, "we can not reveal all of the plans we have for reconversion, but these examples are typical of the thoroughness and efficiency with which our preparations are being made for post-war production. In the World of Tomorrow, we know that plastics, synthetic rubber and metal alloys will assume new importance as basic materials—for each can be controlled to the exacting physical requirements of a particular usage. In each field, Firestone is experienced. In each field, Firestone has a trained engineering, production and sales staff."

Promising new lines include "Velon—the plastic of a thousand forms and uses"; "Contro," an elastic thread," with a wide range of uses, especially in garments; "Foamex," a foam rubber upholstery base replacing metal springs. There is promise also of growing importance in a considerable list of products made of metal alloys and of bonded rubber-to-metal products.

General Tire & Rubber Company is the largest of the "runners-up," ranking fifth in sales volume in the industry. Tire and tube sales constitute the great bulk of revenue and are directed to the replacement and fleet markets rather than the original equipment market. Distribution is through some 2,000 dealers, including service stations of Pure Oil. Production of various types of mechanical rubber goods was begun in 1937 and is of growing importance.

This company believes in diversification—if specific opportunities seem promising—and does not consider itself as bound exclusively to the rubber trade. For instance, in 1942 it bought the Yankee Network, a radio broadcasting chain in New England; and in consolidated report for fiscal year ended last Nov. 30 the management stated that the first year of radio operations had been profitable.

THE BRILL CORPORATION

30 CHURCH STREET
NEW YORK 7, N. Y.

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

Notice is hereby given that a Special Meeting of the Stockholders of The Brill Corporation, a Delaware corporation, will be held at its office, No. 30 Church Street, New York, N. Y., on the 26th of July, 1944, at 2 o'clock P.M., Eastern War Time, for the following purposes:

(1) to consider and take action upon the Plan of Merger of The Brill Corporation and American Car and Foundry Motors Company and Recapitalization of the Surviving Corporation, dated June 26, 1944, and to consider and take action upon a proposed merger, pursuant to the laws of the State of Delaware, of American Car and Foundry Motors Company, a Delaware corporation, with and into The Brill Corporation, which will be the Surviving Corporation, and shall thereafter be known as ACF-BRILL MOTORS COMPANY, substantially in accordance with said Plan of Merger and Recapitalization and the Agreement of Merger attached to said Plan as Exhibit A thereto;

(2) to consider and take action upon the Agreement of Merger between American Car and Foundry Motors Company and The Brill Corporation, dated June 19, 1944;

(3) if said merger shall be authorized, adopted and approved by the Stockholders of The Brill Corporation and by the stockholders of American Car and Foundry Motors Company, as required by the laws of the State of Delaware, to authorize its Board of Directors and the Board of Directors of the Surviving Corporation to take or cause to be taken all such action as shall be deemed to be necessary or advisable in order to carry out said merger and said recapitalization; and

(4) to transact such other business as may properly come before said meeting or any adjournment or adjournments thereof.

Pursuant to the action of the Board of Directors, the books for the transfer of shares of the Preferred Stock, Class A Stock and Class B Stock of The Brill Corporation will be closed at 3 o'clock P.M. on June 28, 1944 and will be reopened at 10 o'clock A.M. on July 28, 1944. Only those who are record holders of shares of such stock at the time of the meeting specified herein will be entitled to vote thereat.

If you cannot be personally present at the meeting, please be good enough to sign and return the enclosed proxy.

BY ORDER OF THE BOARD OF DIRECTORS
H. C. WICK, Secretary.

New York, N. Y., June 26, 1944.

A copy of the above mentioned Plan of Merger and Recapitalization, dated June 26, 1944, to which is annexed a copy of said Merger Agreement designated as Exhibit A, may be examined by any stockholder at the principal office of The Brill Corporation, at 100 West 10th Street, Wilmington, Delaware, and at Room 2000, 30 Church Street, Borough of Manhattan, New York, N. Y.

Main plant is at Akron, Ohio. There is a plant for mechanical rubber goods at Wabash, Ind. To meet growing demand, a new tire plant is planned at Waco, Tex. Through a subsidiary, Aldora Mills with plant at Barnesville, Ga., some 70 per cent of General's needs for tire cord and fabric are met. General has a stake in various foreign markets—including Canada, India, Mexico, Venezuela, Portugal, and Chile—either through subsidiaries or through foreign companies with which it is affiliated by stock and management interests.

The capitalization is \$6,500,000

in 4½ per cent preferred stock and 526,862 shares of common. Total assets are about \$26,000,000, whereas depreciated figure for fixed assets is only \$5,742,000 and current assets are \$17,632,000. Net working capital exceeds \$13,000,000 and equals \$13.08 per common share, after deducting preferred stock.

Although engaged, like the others, in war work, present earning power of General Tire has not been inflated importantly. Earnings of \$2.99 a share last year were less than in 1939 or 1941, and compare with 1936-1939 pre-war average of \$2.38. Dividend at \$1 rate has been paid

LIBERATION

It is our obligation
to back the Liberation
forces by investing in
War Bonds to the extent
of our ability.

INTERNATIONAL BUSINESS MACHINES CORPORATION

for the past four years, the prior record having been irregular. Working capital ratio of 4.1 is higher than that of any of the Big Four companies; price ratio to current earnings and to pre-war average earnings is lower than for the four leading stocks; and operating profit margin compares favorably with those shown by the leaders. Thus, there are real values in this speculative stock.

Companies Making Lasting Gains from War-Time Changes

(Continued from page 363)

over five times what it had been at the end of 1941.

General Precision Equipment has been active in war work through which it has made a number of improvements or new devices for projecting machines and it has developed a new screen for use in television broadcasting in large theatres and other assembly places. The company has also produced some new precision equipment for war use which may have its peace-time applications.

The use of plywood has been greatly extended during the war period and some of the new developments will be of advantage to the companies in this field after the war. Among the leaders are U. S. Plywood, Atlas Plywood and Mengel Co.

Definite proof of what the war has done to help can be found in the case of individual railroads. Until a year or so ago, whenever investment discussions were held, certain of them were referred to as "marginal." The implication was that serious danger of default on bond interest might exist unless earnings radically improved and working capital was enlarged. New York Central and Southern Pacific were among the railroads so listed for a long time, until quite recently. Both have had very good earnings in the past two years, have made large retirement of funded debt and have built their working capital to such an extent that they have both ceased to warrant the "marginal" classification.

War stimulated earnings have enabled the Baltimore & Ohio Railroad to reduce its debt over \$100,000,000 and to build working capital to a large sum. It has not solved all of the problems of the road, with some heavy nearby maturities still to

be taken care of, but if earnings keep high for another year or two, these difficulties may be surmounted. Missouri-Kansas-Texas has also made very large reductions in its bond liability, and so has the Lehigh Valley, and these two, also, may be less "marginal" if another year or two of large income continues. Others which may be near to getting out of the "marginal" class because of wise use of recent large earning power include Northern Pacific and Illinois Central. The Erie completed its reorganization just when the earning power of railroads was starting to rise sharply, and it has been a fortuitous development for it, giving the new road a fine start.

No railroad has shown as startling an improvement for the better than has Delaware & Hudson. Large earnings enabled the road to extend a large bond issue when it matured over a year ago, whereas if pre-war conditions had still prevailed, it is doubtful that this financial arrangement would have been successful, nor could a new bond issue have been floated. Debt has been very sharply reduced and a very large working capital accumulated. Furthermore, these good conditions will now make it feasible to merge the Delaware & Hudson Co. with its railroad operating subsidiary, which will save a large amount of overhead.

Where Wage Cost Differentials Will Importantly Affect Post-War Investment Values

(Continued from page 345)

the cotton and woolen industries the railroads and the shipbuilding industry which, due to high labor ratios and inability to absorb rising wage costs, were severely affected by inroads of competitive materials or services, and in the case of the ship building industry, by foreign builders with far lower wages ratios.

The steel industry is putting up a valiant fight to escape a similar fate brought closer perhaps by emergence of new competitive materials such as aluminum and plastics, both of which have lower labor ratios. In 1939, the indicated ratio of the former was 40%, that of the plastics industry 26% compared with the steel industry ratio of 49%. Today all are markedly lower but the differential between the three continues to work to the disadvantage of steel. Once the post-war boom is over, these trends and relationships will become

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Amer. Bank Note, pf.	10 $\frac{1}{8}$	Crane Company	5 $\frac{3}{8}$
Amer. Woolen, pf.	12 $\frac{1}{4}$	Studebaker Corp.	6 $\frac{1}{2}$
Ill. Cent. C. St. L. N. O. 5's	15 $\frac{3}{4}$	Nash. C. & St. L. 4's	16

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General Foods Declares Preferred Dividend

Directors of General Foods Corporation, at a meeting held June 21, 1944, declared a quarterly dividend of \$1.12½ a share on the 150,000 outstanding shares of the company's \$4.50 Cumulative Preferred Stock. The dividend is payable August 1, 1944, to holders of record July 10, 1944.

* * *

Among the products of General Foods are: Baker's Cocoa—Baker's Coconut—Baker's Premium Chocolate—Birds Eye Frosted Foods—Bireley's Orangeade—Bluepoint Oysters—Calumet Baking Powder—Certo—Diamond Crystal Salt—40-Fathom Fish—Gaines Dog Meal—Gaines Krunchon—Grape-Nuts—Grape-Nuts Flakes—Grape-Nuts Wheat-Meal—Instant Postum—Jell-O—Jell-O Ice Cream Powder—Jell-O Pudding—Kaffee Hag Coffee—Le France—Log Cabin Syrup—Maxwell House Coffee—Maxwell House Tea—Minute Gelatin—Minute Tapioca—Post's 40% Bran Flakes—Post Toasties—Postum—Sanka Coffee—Satina—Snider's Catsup, Cocktail Sauce, and Old Fashioned Chili Sauce—Sure-Jell—Swans Down Cake Flour.

GENERAL FOODS

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more clear-cut and we shall then see whether steel, despite its basic importance, will eventually go the way of coal. It would be rash indeed to prophesy such a fate today, especially as the steel industry, far more foresighted than the coal industry ever was, is strongly opposing such a trend. Still mechanization of steel operations has a practical limit and once it is reached, labor as a cost factor will virtually freeze the pay point, allowing little or no leeway to meet competition.

Another high wage industry is the railroad equipment industry; as in

steel, the high wage ratio is greatly contributing to the sharp cyclical fluctuations characteristic of this business. These are not determined by demand alone but as far as earnings are concerned, also importantly by inability to adjust costs to a lower level of operations. And wages, in this industry, account for about 46% of costs.

In 1939, the indicated average wage ratio of all manufacturing industries was 36.8%. We find that a majority have ratios below or near this figure. Those with low ratios enjoy a valuable differential advantage and it is natural, therefore, that we find among them a good many industries which normally have superior investor appeal. The amazing earnings stability of the chewing gum and soft drink industries, for example, is largely bound up with the relative unimportance of wages as a cost factor, of value especially in periods of declining volume.

Broadly speaking, industries with low or moderate wage ratios are in a better position to absorb rising payroll costs without raising selling prices, thus are less likely to meet consumer resistance on that score. Those with expanding demand trends, such as the oil, electrical appliance and rayon industries, conceivably could readily offset higher costs by boosting volume by means of price reductions, as frequently done in the past. This can be accomplished either by operating economies, modernization of productive processes and in the future, perhaps increasingly, by switching to new and cheaper basic materials. An additional and new prospect is the saving of transportation costs made possible by war-time decentraliza-

tion of a good many basic industries. The latter factor alone may set in motion some entirely new trends in cost relationships after the war. While it is too early to project them at this time, they may be fairly important and well worth watching.

High wage industries, on the other hand, may be hard put to not only in trying to cope with future payroll increases but with those which occurred during the war period. These, in many instances, will call for considerably higher selling prices eventually producing unfavorable reaction on volume especially in the more competitive situations.

In the case of machine tools, it may boost sales of second-hand machinery to the detriment of new production. This may also occur in office equipment. With the meat packers, it may intensify the declining demand trend noted before the war, as it probably will also in cotton and woolen textiles once the post-war restocking boom is over. Since there are no substitutes for locomotives, or airplanes, or tires and tubes the effect in these industries may merely be a more cautious buying policy by potential purchasers, leading as it did in the past to sharper intra-industry competition and painful shaving of profit margins. These are longer range implications, of course, since deferred demand in these items is heavy with the exception of airplanes.

The electric appliance industry has a relatively moderate wage ratio (29%), the result of high mechanization and mass production. Since prices of the principal materials entering manufacture of most appliances, such as steel, copper, plastics are little changed from pre-war taxes and wages are the main cost problems with the former leading. If taxes come down, prospects are good for constructive post-war price policies and for that very reason, the field perhaps will become even more competitive than before. It looks inviting, both from the standpoint of demand potentials and cost relationships, and the manufacturing process is generally simple.

In the automobile industry, however, the wage factor will be all-important. Predictions of post-war automobile prices 20% to 40% higher than pre-war seriously raise the possibility of consumer resistance. The industry's wage ratio, while just below the upper bracket, is not likely to come down much and any future approach to pre-war selling prices must be via operating econo-

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